

OVERSIGHT OF THE U.S. AND FOREIGN COMMERCIAL SERVICE

HEARING

BEFORE THE

SUBCOMMITTEE ON FOREIGN COMMERCE AND
TOURISM

OF THE

COMMITTEE ON COMMERCE,
SCIENCE, AND TRANSPORTATION
UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

SECOND SESSION

ON

OVERSIGHT OF THE U.S. AND FOREIGN COMMERCIAL SERVICE,
DEPARTMENT OF COMMERCE

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OVERSIGHT OF U.S. AND FOREIGN COMMERCIAL SERVICE

TUESDAY, SEPTEMBER 20, 1988

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
SUBCOMMITTEE ON FOREIGN COMMERCE AND TOURISM,
Washington, DC.

The subcommittee met, pursuant to notice, at 1:34 p.m., in room 562, Dirksen Senate Office Building, Hon. John D. Rockefeller IV (chairman of the subcommittee) presiding.

Staff members assigned to this hearing: Sally Susman, professional staff member; Loretta Dunn, staff counsel; and Gerri Hall, minority professional staff member.

OPENING STATEMENT BY SENATOR ROCKEFELLER

Senator ROCKEFELLER. This hearing will come to order. This hearing will deal with the U.S. and Foreign Commercial Service. I have an opening statement to make.

Last October, when I chaired the first oversight hearing on the U.S. and Foreign Commercial Service, in the subcommittee I said that I would be holding such a hearing annually.

A year has passed and it is now time to review what has happened with the commitments and the plans as prescribed by the US&FCS last October.

We all know that there are two possible ways to reverse our dangerously-high trade deficit. We can either export more or we can import less. The former obviously is much the preferable, exporting more means enhancing our competitive positions globally.

There are many things that we must do to make ourselves competitive again, and one of these is to educate potential exporters.

The US&FCS has as its primary responsibility the promotion of exports, and it is the purpose of this hearing to see how they are doing with the task.

A year ago I asked three questions and they are still relevant today. Is the U.S. and Foreign Commercial Service providing the necessary services to small and medium-sized business across the United States, so that they can improve their export performance?

Two, is the U.S. and Foreign Commercial Service helping to educate the smaller businessmen, so that he can become more understanding of the desirability of entering the international market?

And is it delivering these services, finally, to businesses that have never been involved in selling abroad, but have the potential to do just exactly that, but perhaps do not know it.

During Commerce Secretary Verity's confirmation hearing last year, he said about the U.S. and Foreign Commercial Service that there is "a great potential in the group which is being unused. I am aware of how important it could be. I can assure that I am going to work very closely with them to see if we cannot make them more effective." I asked him that question at that time.

I would like to know what has been done over the past year to make the U.S. and Foreign Commercial Service more effective, what has improved over the past year and the help that the U.S. and Foreign Commercial Service gives to small and medium-sized businesses.

One area that troubles me, as indeed it did last year, is the commercial information management system, CIMS. Former Director General Alex Good told this Committee last year that that particular program would go on-line in October, and would be fully implemented by the end of 1987.

I understand now that it is just barely operational, in fact, at this moment. I just do not understand why the US&FCS is having so many problems with this.

We cannot compete in the international marketplace, as Governor Baliles will point out, which is after all a pretty sophisticated marketplace if we handle our information with paper and pencils.

I am also interested in what you are doing and has been done to improve the feedback that the service receives from the private sector, which is after all the service's ultimate customer.

I hear from my constituents every day, especially on election day. The businessman hears from his customers daily when the cash register rings or does not.

What do state officials and businessmen think about the US&FCS and its performance? What has happened with the US&FCS advisory council that was supposed to be set up? What happened with the questionnaire that was supposed to go to the private sector?

We have an excellent set of witnesses.

Governor Gerald Baliles of Virginia, has, I think, in almost everybody's estimation made a tremendous impact on Virginia with respect to his intensity and determination to increase exports and overseas contacts. He heads the National Governors' Association, which is a pretty good group, and comes from my neighboring state.

I have opening statements from Senators Hollings and Wilson that I will include in the record at this point.

[The statements follow:]

OPENING STATEMENT BY THE CHAIRMAN

I am pleased that the Subcommittee on Foreign Commerce and Tourism is having this hearing on the US&FCS. This is an annual oversight hearing on the US&FCS—an important service at the Department of Commerce with the mission of assisting small and medium size businesses in their efforts to export.

The Committee oversight activities here today are meaningful because we need to know if our government is doing everything possible to help our domestic companies enter foreign markets. I believe most American industries are competitive, but the comparative advantage for our foreign competitors is often their government.

Let's look at what other governments are spending per capita on export promotion. Our largest trading partner Canada spends \$21.44. Sweden spends \$8.72, Bel-

gium spends \$6.35, and France spends \$6.19. Meanwhile, the United States spends only \$1.20 for export promotion. We hear a lot about "Export Now" and other catchy phrases to help American businesses, but this government needs to put its money where its mouth is for such critically important activities as export promotion.

Succeeding in the international marketplace has got to be a partnership between government and business. This oversight hearing today is to make sure our government is keeping up our end of the bargain. With our annual trade imbalance at a staggering \$170 billion in 1987, we can no longer afford to wait to take strong action.

The US&FCS can be a great help to small and medium size businesses as they take the plunge into exporting. This Committee wants to see that the US&FCS meets its mission.

I commend Senator Rockefeller for having this hearing and for his commitment to annual review of the US&FCS.

OPENING STATEMENT BY SENATOR WILSON

Mr. Chairman, I appreciate your calling this oversight hearing on the activities of the U.S. and Foreign Commercial Service.

If fully supported, the US&FCS can be a major player in a comprehensive effort to promote U.S. exports. On the other hand, if we allow the US&FCS to lie fallow, to wither on the budget vine, we will leave American businesses—large and small—to fend for themselves against competitors who have behind them the full support of their governments.

It is clear that U.S. businesses have the primary responsibility for marketing internationally. Nevertheless, there are some actions essential to successful sales efforts which can only be undertaken by the federal government.

For example, U.S. businesses certainly cannot be expected to successfully combat foreign tariff and non-tariff barriers without government assistance. Furthermore, small businessmen and women simply cannot be expected to undertake efforts to sell products and services overseas on their own—it is too risky and too expensive. Yet, it is in the national interest that such international sales take place. Therefore, we should provide help, and that is the role of the US&FCS.

Mr. Chairman, I especially want to thank you for extending an invitation to Janice McEntee of the California World Trade Commission. The Commission has done a great deal to successfully promote exports from my State of California, and I believe that the State's experience—on its own and in concert with the US&FCS—will be instructive to the Committee.

Thank you.

Senator ROCKEFELLER. I am very proud to give the floor over to you, Governor Baliles.

STATEMENT OF HON. GERALD L. BALILES, GOVERNOR OF VIRGINIA AND CHAIRMAN OF THE NATIONAL GOVERNORS' ASSOCIATION

Governor BALILES. Thank you, Mr. Chairman. This Committee understands what an international economy means, so do the nation's governors. They live with it every single day.

Governors have seen whole industries challenged, entire markets shift and opportunities emerge. Governors have seen how international economic competition has affected individual jobs, family incomes, and the character of the work force.

I have absolutely no doubt that all of us, the business sector, the Federal government and the states, share a common determination to confront the challenge. But we have much work to do, and we all know it.

We must seek new markets for existing products and create new products for existing markets. We must see the economic needs and aspirations of other nations as clearly as we see our own. We must

develop an internal economic development strategy, a strategy that works.

Through the auspices of the National Governors' Association, the governors of the American states and territories are in the formative stages of designing such a strategy. We call it "American in Transition: The International Frontier." Our plan is to move on two fronts.

First, we will look beyond our borders to see the challenges of the international economy more clearly and understand what skills Americans will need to compete in the global economy.

Second, we will examine the world within our borders, to learn what we must do to regain our domestic markets, improve our infrastructure, and invest in our people. I will leave the Committee copies of the NGA agenda. I urge you to review it, but you may be surprised at the scope of its activities.

Mr. Chairman, the states are already at work. Many states now have programs to educate local businesses about world cultures and practices that affect their pursuit of international markets.

States are also helping their businesses find partners overseas that have capital, technology, distribution lines, or other resources that U.S. companies need to survive or expand.

Forty-one states and territories have opened offices in countries abroad. Interestingly, 37 states have offices here in Washington, D.C. Thirty-five states are represented in Japan. And several states have representation in Tokyo but not in Washington.

In essence, Mr. Chairman, the states see their role in trade as advocates for the enterprise in their states. Based on the extensive state record trade promotion, we do have eight specific suggestions for the U.S. Department of Commerce and the U.S. and Foreign Commercial Service.

First, emphasize trade. Business is not the only actor that must become more export-minded. The Federal government must do it as well.

Secretary Verity's "Export Now" program is a good start. I helped kick it off. But we must have the resources to sustain this worthwhile and productive effort. The trade deficit in merchandise was down last month, largely due to export.

Second, make U.S. trade intelligence the best in the world. Good analysis helps America to anticipate and compete in the changing world. It must be timely. It must be widely available to U.S. companies experienced in international trade to new export companies and to states.

Third, improve state by state export and import data. The Federal government now provides trade information, but more timely and accurate state by state data on exports and imports would serve our business communities more effectively.

Fourth, strengthen the Federal-state partnership. The Administration proposed this year to experiment with stronger ties between the states and the domestic side of the U.S. and Foreign Commercial Service. We can help each other and together help the cause of American trade.

Fifth, work to help small and medium-sized businesses export. Create a trade expansion center in Japan for small American businesses. It has been proposed. It is a good idea.

And give Federal support to domestic trade shows, which could promote broader participation in exporting activities by small American firms.

Sixth, support successful Department of Commerce programs. The U.S. and Foreign Commercial Service has a trade center in Japan.

There is strong evidence that we are not investing sufficiently to keep this facility in working order. And I wonder what the conditions are in other foreign trade centers as well. Mr. Chairman, I believe it bears looking into.

Seventh, make certain that we are not being outgunned in worldwide economic competition. It would be interesting to contrast the U.S. figures for the overseas representation deployed by Japan, Canada and other U.S. competitors.

Again, there is compelling evidence that we are not fielding a full team while other nations have their teams out in the bench too.

Eighth, implement the market development cooperator program. The trade bill also explicitly authorizes the Department to work with businesses and state and local governments to open new overseas markets for U.S.-manufactured products.

The program's objectives are to help identify market opportunities, introduce new products, eliminate barriers and improve trade relations. We believe this approach holds promise and should receive your strong support.

Mr. Chairman, American creativity, optimism, and determination remain as much on display as ever. But does the international economy allow us the luxury of doing business as usual? And the answer is no.

Governors hold the responsibility for anticipating the future. They deal in the real world. They must ask themselves the tough questions and be willing to confront the answers. We have the determination to meet them, and I know you do too. So let us agree on the best way to approach our task and begin today.

Thank you, Mr. Chairman, for the courtesy of appearing first, and I will be glad to answer your questions.

Senator ROCKEFELLER. Governor, obviously you are enormously respected and aggressive, and you refer a lot to information and what kind of information we need to have if we are going to be competitive.

There has been some criticism of the U.S. and Foreign Commercial Service because of the lack of a feedback system, the absence of a way, to hear from businessmen, perhaps to hear the results from state efforts, aggressive state efforts, such as the ones that Virginia has made.

Could you comment on that? How do you interact with the U.S. and Foreign Commercial Service with respect to information?

Governor BALILES. Let me say that I have the greatest respect for Secretary Verity and the people with whom I have come in contact.

They have been primarily helpful to us on first contacts with market opportunities. But generally speaking, in terms of developing a specific trade mission targeting a specific company or country, once we have made that initial contact with them we are basically on our own, generating our own information, in some cases

faster than what is ordinarily the case if we were to wait for an agency response.

I do not mean that as a criticism. It is just a matter of moving very quickly. But to give you an example, one of the approaches that we are taking in Virginia is to look at countries that are dollar-surplus rich, is the way I would describe them.

They have got the dollars there. They are not self-sufficient. What do they import? And then match it, get that computer print-out of what they import, and then match it against what Virginia manufacturers and producers turn out, and to see whether we can make a match.

Do we make it? Do we have the capacity to market or to manufacture for that market? That kind of information is probably easier for us to generate ourselves.

Now, the U.S. and Foreign Commercial Service could produce what those countries import and do it across the board for all countries, but I do not know how much of a task that would be. I do not know whether all of that information is available.

But clearly for us, they have been helpful, but not across the board because not all of our needs can be met by the agency. I found them very helpful and I commend them for what they are doing.

Senator ROCKEFELLER. Would you consider Virginia atypical in the sense that you obviously have a very sophisticated program in which you can generate your own statistics, your own information, your own marketing knowledge?

It is very interesting, for example, when you say that several states made the decision to have representation in Tokyo but not in Washington. Unfortunately, my state has made the decision to have representation in neither place, which I think puts us at a great disadvantage.

Are you atypical? Or are you more advanced? The southern states have traditionally been extremely good at working the Orient, for example, and you have an association which helps you do that, as well as your own operation.

Governor BALILES. Well, trade in our state has been the subject of a long-held interest, both in the Republican and in the Democratic administrations, because trade is really—I think our state, but increasingly a lot of other states see trade as the future.

We are part of an international economy. The question is, how do you adjust to it? You have to restructure some of your agency responses. In most states you will find ports, agriculture, and an economic development department involved in some kind of trade activity, either in attracting capital investments or in seeking new markets for manufactured goods and products.

We are restructuring our agency so that there is a strategic plan that is developed on an annual basis, targeting countries, identifying commodities that we can zero in on.

Sometimes we cannot wait for a lot of information. We have to get it the best way we can. I am not suggesting that our information is complete. But it has to be done quickly.

The one complaint that most states have about Federal information on trade is that it is outdated. It takes a year and a half, in

some cases longer, for that information, the information we get is a year and a half or two years old.

With the computer capabilities we have in this country, that information ought to be timely, and it ought to include imports as well as exports.

The reason for import information is so that you can see what your competition is. If in fact import sales are going up tremendously in a given market, whether it is regional or state, you can look and see where it is coming from and in what volume, and then try to develop a strategy to counter it.

You have got to have accurate information. There is another problem. A lot of import-export data is port-related, so that what may go through the port of Seattle will be reflected for the State of Washington, or in the case of Hampton Roads for Virginia, when in fact it may include Montana and West Virginia products.

I do not know how you get a handle on that. Somebody else with a mechanical approach can develop it, but it is needed so that states can have more accurate information and on a timely basis to deal with it.

Senator TRIBLE. Mr. Chairman?

Senator ROCKEFELLER. Senator Tribble.

Senator TRIBLE. May I observe that the shorthand answer to your response is that yes, Virginia is both atypical and more advanced, to use your words.

Governor BALILES. I am much more modest, Senator.

Senator ROCKEFELLER. You complained a little bit about the information being out of date. Do you know the commercial information management system, the so-called CIMS system, which the U.S. and Foreign Commercial Service has been trying to implement?

Governor BALILES. I am aware of it, but I do not have the daily contact.

Senator ROCKEFELLER. But you stated the information that you do get from them, that is the U.S. and Foreign Commercial Service, is a year and a half or two years out of date, or the information that you get from the government?

Governor BALILES. I am speaking generically about the kind of trade information that comes often through commerce channels. I do not want to focus just on the U.S. and Foreign Commercial Service.

Let me bring to your attention that somewhere the data ought to be brought together. Here is a document put out by the State Department's Bureau of Public Affairs. It is an atlas of U.S. foreign relations.

I have found it useful because in addition to outlining the various organizations to which we have a foreign tie, it contains, I think, very helpful information on such subjects as world fossil fuel deposits, commodities, U.S.-manufactured products.

It gives me and my people a feel for information we have not been able to find in some other publication. It is helpful for trying to find markets. Let me give you an example of how I think the Federal government could be helpful to states.

We deal with established markets, but there is an emerging market. Anywhere there are people you will find needs. Take

India. India has one of the lowest per capital incomes of any nation on the face of the earth.

By the end of the next decade it may be the most populous nation on the earth. You would look at that and determine that there is very little prospect for trade. And yet if you look at the population, you will find an upper middle-class to upper-income class, the population of which is larger than the total populations of France and Germany. They have buying power.

What do they buy? How do we reach them? That is the kind of information that I think the Federal government could provide to states. There is no need for 50 states to invent that information on their own, but to find that information and say, here are ways to develop counter-trade possibilities with Third World countries with needs and with raw materials, but lacking the cash, the hard currency to make the trade.

That kind of catalytic role I think could be very helpful. And again, I want to stress that my dealings with the U.S. and Foreign Commercial Service has been helpful in that. It is just that I think there is a need to expand that kind of information base and to make it more timely.

Senator ROCKEFELLER. Governor, I thank you. Senator Tribble?

Senator TRIBLE. Mr. Chairman, I simply want to welcome the Governor warmly. This is the second occasion that we have had an opportunity to hear from him this day.

He spoke this morning about the need to protect and preserve the Chesapeake Bay before a hearing chaired by our colleague, George Mitchell, of Maine, and he is here today. I would observe that he is spending a lot of time in Congress these days, and I have to share that with my friend, John Warner.

The focus on creating export opportunities and attracting foreign investment is an important one. This governor, as have other governors of Virginia and other innovative governors around the country, is focusing on those opportunities. It is something that we have to pursue together wherever we sit, in Richmond or in Washington.

I also want to welcome Allen Moore. Allen, we are glad to have you back here today. You served this Committee well for many years, and I am pleased that we can welcome you today as the Undersecretary for International Trade at the Department of Commerce. We appreciate the good job you continue to do.

Jerry, it is always a pleasure to see you.

Governor BALILES. Thank you.

Senator TRIBLE. I must tell a story about Jerry Baliles. It is not always that I can get you to smile or Jerry to smile.

But when I was an intern one summer during law school I was chosen by Andrew Miller, then the attorney general of Virginia, to be the intern in the attorney general's office. He hired me in spite of my Republican leanings, and assigned me to work with a young attorney general of Virginia named Jerry Baliles, who was then establishing an environmental law section in the attorney general's office.

I had a chance to work with now-governor Baliles that summer and learned from him and learned from the experience a great deal. I saw Jerry recently, a young man who shared that experience with me that summer, one of the four or five interns.

And he said, did you ever think for a moment that Gerald Baliles would end up being governor of Virginia? I said, did you ever think for a moment that Paul Tribble would end up being a Senator from Virginia? And we both laughed and agreed that the years have passed, and they have been very good to both of us.

You have served Virginia well, and I am glad you are here.

Governor BALILES. Senator, in the interests of candor, I would simply point out that the now-governor of Virginia was the one who interviewed and made the job recommendation with now-Senator Tribble.

Senator TRIBBLE. I hope that perhaps we can continue to work together.

Senator ROCKEFELLER. One final question, Governor, if I might, and then your 2 o'clock time will have arrived.

Do you basically favor the sort of co-location theory? And can you tell me about your offices overseas?

Governor BALILES. We have offices in Brussels.

Senator ROCKEFELLER. How many people there?

Governor BALILES. Let us see, three or four. In Tokyo.

Senator ROCKEFELLER. In Tokyo how many?

Governor BALILES. The same number. All of them are about the same in size. Brussels, Tokyo, Hong Kong, Sao Paulo, and we will open one in two weeks in Seoul.

Senator ROCKEFELLER. That is remarkable. You are going to open one in Seoul?

Governor BALILES. Yes, Senator. We are fifth, I believe.

Senator ROCKEFELLER. Are each of the employees, or at least a portion of each of those employees fluent in the languages?

Governor BALILES. Some are. Well, in fact, all are. The one in Brussels speaks three or four different languages.

Senator ROCKEFELLER. The concept there of co-location, how does that appeal to you? Or how does it not appeal to you in terms of the US&FCS?

Governor BALILES. I am not certain I understand your definition of the term "co-location." But clearly there are opportunities when the states together can collaborate. There are other times when that is practically impossible.

Senator ROCKEFELLER. What about within the state itself, within the State of Virginia? Your people, your trade people back there, and the branch of the US&FSC which is in the state?

Governor BALILES. We have worked together and we look forward to those opportunities where we can continue to work together.

What has been presented in recent proposals has been seen in the light of a budget-cutting exercise. That is the wrong attitude to take. If it is seen as a way of working together to sell the goods, the products and the services in this country, then I think you will see a more cooperative spirit.

If it is seen as a way of the Federal government unloading a responsibility in order to meet its own fiscal needs, then I think you may see some problems.

Let me leave you with this thought. Whatever approach is undertaken between Federal and state agencies, somehow we have to regain an art that we have lost, and that is the art of selling.

I mean, the term "Yankee trader" was not a casual term that was coined in the past. It was a reflection of an ability of American business leaders to sell their products. Somehow we have lost that.

Too few businesses in our country, in our own state, see the export potential that is there. And so we have to look for ways to sell the product, to find the market. And too often we fail to do that.

I will give you one example from our trip to China two years ago. I was surprised to discover that chicken feet in China constitutes a delicacy. I thought I had read a great deal, I understood the custom and the culture. But I was surprised.

I reflected on the way back that in Virginia's Shenandoah Valley we have a number of large poultry processors. We are fourth or fifth in the country. So I inquired, what use do you make of chicken feet? And I got a laugh.

Well, they were being discarded at the end of the assembly line. We now ship 40 tons a month to China. It is a market that we found. It is a catalytic role that government can play.

And so I do not think government can make the business decisions. But we can provide the information base and the attitude, and serve as a catalyst, an agent for changing the way we see markets and define new markets for goods and products. And that includes services.

In a lot of the Pacific Rim countries, they are now becoming aware of the environmental problems. They have the money to do something about them. But they have no experience.

So I have turned to our engineering firms in Virginia who have been developing standards, designing control technologies, and say, here is a market, here are the contacts we have made, go to it. We now have companies doing business in those countries.

To me that is the attitude that we have to develop in this country if we are to turn around the trade deficit.

Senator ROCKEFELLER. Just one final question. Does it not seem to you that a state who is not represented in Tokyo, for example, is failing in terms of its opportunities to maximize its exports?

Governor BALILES. It is missing a great opportunity to expand the sales of the manufacturing concerns and the services that are provided in that given state.

I would be there if we were not, I would find a way to get there.

Senator ROCKEFELLER. Yes. But even if you were a governor and you went to Tokyo, but you did not have an office there, there is only so much that you can do.

I mean, you wear out your welcome, you hold some receptions and you get around to as many people as you can. But there has to be a permanent presence.

Governor BALILES. Sure. To give you a good example, the Japanese have 900, roughly 900 business representatives in this country who speak our language fluently.

They are prospecting for business opportunities in every one of our states. There are 900 Americans overseas. I am sorry, 10,000 Japanese business representatives here versus about 900 American representatives over there. Only a handful of homes speak the language.

We need the presence there, looking for leads, finding those leads, trying to bring closure to a sale opportunity for some manufacturer or business or service producer.

Senator ROCKEFELLER. Are you within the University of Virginia system or outside of it, encouraging the study of Japanese language?

Governor BALILES. Senator, we are doing more than that. We have got our colleges offering more language requirements.

But at our secondary level, we have created foreign language academies that are residential in nature. We are now offering students who have had one or two years in a world trade language an opportunity for total immersion.

So this past summer we had foreign language academies in French, Spanish, German, Chinese, Japanese and Korean, and we added Russian. Those students do not speak English until the end of the program.

They come out of it with a greater awareness of the custom, the geography, the culture of that country, as well as the speaking ability.

Senator ROCKEFELLER. And that is state-supported?

Governor BALILES. State-supported and it is a good bargain.

Senator ROCKEFELLER. That is excellent.

Governor BALILES. We also offered a program for our business, for Pacific Rim countries of China, Japan and Korea, 13 days at William & Mary, where we brought State Department, Defense Department, Commerce Department officials along with some of our own trade officials.

And we spent two or three days each on China, Japan and Korea. We looked at the ancient history, we looked at the customs, the cultures. We looked at trade opportunities. We looked at what the state is doing.

And each, we picked 25 localities in Virginia, a business leader, a master teacher, and a top student. And they attended this 13-day seminar as a team. At the end of each day they had to summarize what they had learned, and then at the end of each segment developed a lesson program for going back into their communities to teach others, so that you have this ripple effect throughout the entire state.

Senator ROCKEFELLER. Governor, that is superb. I have read about that. It is an absolutely superb effort.

Senator Tribble, unless you have other questions, the Governor needs to be on his way. We thank you very much, Governor.

Governor BALILES. Thank you, Senator.

[The statement follows:]

STATEMENT OF HON. GERALD L. BALILES, GOVERNOR OF VIRGINIA AND CHAIRMAN OF THE NATIONAL GOVERNORS' ASSOCIATION

Mr. Chairman, this committee understands what an international economy means.

So do the nation's Governors.

They live with it every day.

Governors have seen whole industries challenged, entire markets shift, and opportunities emerge.

Governors have seen how international economic competition has affected individual jobs, family incomes, and the character of the work force.

I have absolutely no doubt that all of us—the business sector, the federal government and the states—share a common determination to confront the challenge.

But we have much work to do—and we all know it.

We must seek new markets for existing products and create new products for existing markets.

We must see the economic needs and aspirations of other nations as clearly as we see our own.

We must develop an internal economic development strategy—a strategy that works.

The question is: Are we acting fast enough?

If we are, why has the U.S. share of the international export market dropped 30 percent since 1950? Why has the U.S. share of total world research dropped from 70 percent to 55 percent?

The plain fact is that we all have more work to do. We must adjust economic policy to recognize new realities. We must establish new economic relationships that enable America to compete throughout the world.

And there is more that we must do:

We must learn to see the world in new ways. We must become as adept in selling as we are at buying. We must appreciate other points of view as well as understand our own. We must see the economic needs and aspirations of other nations as clearly as we see our own.

Each of us has a responsibility. Managers, farmers, and researchers must develop investment strategies for the long run. Business must become more "export-minded," in the words of an exporter who spoke to the NGA International Trade Committee last month. And government at all levels must help define and invest in the future.

NGA INTERNATIONAL AGENDA

Through the auspices of the National Governors' Association this year, the Governors of the American states and territories are in the formative stages of designing such a strategy. We call it: "America in Transition: The International Frontier."

Our plan is to move on two fronts.

First, we will look to the world beyond our borders so that we can see the challenges of the international economy more clearly and understand what skills Americans will need to compete in the global economy. Second, we will examine the world within our borders, focusing on what we must do to regain our domestic markets, improve our infrastructure, and invest in our people.

We will look at the changes we must make—in the way we work, the way we invest, and the way we think about the world and our role in it. And we will develop an action plan.

To chart the course, I have established six groups. To deal with issues beyond our borders, there are task forces on Foreign Markets (chaired by Mississippi Governor Ray Mabus), International Education (chaired by New Jersey governor Thomas H. Kean), and Research and Technology (chaired by Maine Governor John R. McKernan.)

The task forces addressing issues within our borders are on Domestic Markets (chaired by Michigan Governor James J. Blanchard) Infrastructure (chaired by Illinois Governor James R. Thompson) and Children (chaired by Arkansas Governor Bill Clinton).

I hope that our work throughout the year will keep the linkage between education, transportation, and trade in the public eye, and that it will leave us with a clear agenda for addressing the challenge ahead.

STATE TRADE PROGRAMS

Mr. Chairman, I should not leave the impression that the agenda of the National Governors' Association is the only work states have underway in the international area. Governor Booth Gardner, the chairman of our International Trade Committee, did an excellent job at your hearing last year of summarizing the extensive state trade programs, and I will not repeat that information here.

Suffice to say that in responding to the challenge of change, the nation's Governors are already on the front lines. Governors have led movements to reform education and to revitalize state economies. State initiatives have touched almost every aspect of international relationships. Here are just a few examples.

International education reform

Our students need to know where our trading partners are, what drives them to buy our products, how to communicate with them, and how important they are to our economy. Through curriculum changes and teacher training programs, states are striving to impact this world view.

In this international age, learning can never stop. We must be students all of our lives. Recognizing this, many states now have programs to educate local businesses about world cultures and practices that affect their pursuit of international markets.

Joint venture promotion

Although a relatively new activity, international joint venture promotion is fast becoming an important part of state trade strategies. States are helping their businesses find partners overseas that have capital, technology, distribution lines, or other resources that U.S. companies need to survive or expand. Joint venture matchmaking is an approach uniquely suited to a global economy, where companies draw resources from all around the world without regard to national boundaries.

Trade promotion

In addition, states have stepped up their overseas activities. Forty-one states and territories have opened offices in countries abroad. It is interesting to note that while thirty-seven states have offices here in Washington, D.C., thirty-five states are represented in Japan. Several states made the decision to have representation in Tokyo but not in Washington.

During 1987, Governors from 43 states and territories made 87 trips abroad. This represents a considerable amount of time and energy on our part and indicates the level of our personal commitment to improving the U.S. trade position.

I want to note that teamwork is beginning to be an important element in state trade efforts, where competition previously had been the rule. The Mid-South Trade Council, which includes the states of Alabama, Arkansas, Mississippi, Tennessee, Louisiana, and Kentucky, shares trade show representation and trade leads. This initiative has paved the way for three Governors, Governor Clinton, Governor Mabus, and Governor Roemer, to travel to the Far East this month to seek trade opportunities for the companies in their region.

In essence, Mr. Chairman, the states see their role in trade as advocates for the enterprises in their states. To this end, we counsel individual companies on how to meet their trade goals, sponsor trade missions and shows, and work to help our companies adjust to the trends that have been identified. We look to the federal government for the tools we need to help our businesses compete: sound trade policy, market access, and reliable trade data.

FEDERAL TRADE PROMOTION

Based on the extensive state records of trade promotion, we do have eight specific suggestions for the U.S. Department of Commerce and the U.S. and Foreign Commercial Service.

Before detailing them, let me first commend you and your colleagues for providing a statutory base to the U.S. and Foreign Commercial Service structure in the recently enacted trade bill. I think we all agree that the federal government has a very critical role to play in export promotion. The U.S. and Foreign Commercial Service maintains a network of knowledgeable commercial officers in 141 posts around the world. It also has 47 offices in the U.S. that are familiar with domestic firms and that provide a link to the state trade programs.

We offer our recommendations in the spirit of partnership that is essential to a healthy U.S. trade sector and a strong economic future for our country.

1. *Emphasize trade.* Business is not the only actor that must become more "export-minded." The federal government must too. The Department of Commerce should take the lead on this.

Secretary Verity's "Export Now" program is a good start. But where are the resources to back it up? Where is the hard evidence that trade is a higher federal priority now than it was last year and the year before?

2. *Make U.S. trade intelligence the best in the world.* Governor Gardner recommended this to you last year. I strongly recommend it still. We must know that our trading partners want to buy. We must know how their trade practices are affecting our exporters. We must know how our companies are faring in the competition for our own enormous and rich U.S. market.

I am not just speaking of number-crunching here, although that is certainly part of it. We need analysis to help us anticipate and compete in the changing world.

Federal trade officials should always be alert to new approaches. They should be looking for ways to learn from other countries. They should identify weaknesses in the current U.S. Trade infrastructure and suggest ways to improve it.

This trade intelligence must be up to the minute. It must be widely available to U.S. companies experienced in international trade, to new-to-export companies, and to states. It must be user-friendly and flexible.

We believe that the federal government should be the coordinator and the instigator of this data collection effort. Many of the sources are foreign governments. The demand—outside a few large companies—is still too soft to be attractive to private vendors. A major “selling” job is still ahead. For all these reasons, the federal government must take the lead.

3. Improve state-by-state export and import data. Without accurate and timely state-by-state data on exports and imports, status cannot hope to identify new opportunities, assess our past performance, and evaluate our competition in the world economy. We must be able to do this to serve our business communities effectively.

The Department of Commerce has announced that it will provide the export data we need on a pilot, full-cost recovery basis this year, but no import data is available. The trade bill mandated that the Department provide both import and export data on a regular basis and that it work to improve the data.

We understand the data will cost \$500,000 annually. We strongly suggest that this cost be included in the fiscal 1990 Department of Commerce budget. With this relatively small investment, Congress could take a seminal step toward resolving the American trade deficit.

Here is one point while we are on the subject of basis information needs. Because tourism is a primary interest of yours, I have attached the policy on tourism data that NGA adopted this summer. I commend it to your attention.

4. Strengthen the federal-state partnership. The administration proposed this year to experiment with stronger ties between the states and the domestic side of the U.S. and Foreign Commercial Service. Alternatives ranging from states taking over the responsibilities of the district offices (including hiring and firing decisions) to moving the federal offices next door to the state trade offices were proposed. Unfortunately, the experiment was cast as a budget exercise, and the negative reaction was very strong.

I think this is unfortunate, because I believe that closer ties between state trade programs and the federal district offices would be healthy. The two are already developing joint work plans and sharing information on trade leads. Some offices have moved in next door to each other.

Much more remains to be done to eliminate duplication and to concentrate the activities of the states and the federal government on what each does best. I hope the Department of Commerce will invite the states and the district offices to work together to develop new, closer partnerships, on an experimental basis. The only way a change in the district offices will be successful is if it meets the needs of the business community.

5. Work to help small and medium-sized business export. This is where we have the greatest amount of work to do, and the Department's efforts should be fully harnessed to the task. I have two specific suggestions.

First, the federal government should support an idea conceived by Senator Baucus, Senator Ford, Senator Gore, Senator Mitchell, and others to create trade expansion center in Japan for small American businesses. The center would provide office space, translation assistance, and advice for new-to-export companies tackling the complex Japanese marketplace.

Second, develop domestic trade shows for foreign buyers. The new trade directs the department to support trade shows in the United States for foreign buyers of U.S. goods. More domestic trade shows, with federal assistance, could promote broader participation in exporting activity by smaller American firms, especially those who are not ready to make the investment to send sales representatives abroad. Domestic trade shows also can expose foreign buyers to a wider selection of U.S. goods and services.

6. Support successful Department of Commerce programs. Keep the incentives working in favor of increased trade. We recommend that the department review its programs to be certain that they do not contain quirks that amount to shooting ourselves in the foot.

Let me give you an example. The U.S. and Foreign Commercial Service has a Trade Center in Japan. Its job is to put on trade shows and to give U.S. businesses a place for equipment demonstrations, technical seminars, and other sales-related activities.

The Center's events are self-supporting, except for five employees paid for by the U.S. Department of Commerce. This is a considerable reduction below previous staffing levels.

Last year, the Center made a profit of \$80,000. At the very least, it seems that the Center should be able to reinvest its profit in expanding and improving its services and its image. A fair question for the subcommittee to ask is whether this short-sighted approach is being employed elsewhere in U.S. and Foreign Commercial Service programs. If it is, it should be changed.

7. *Make certain we are not being out-gunned in world wide economic competition.* I was interested in seeing how we compare with other nations, so NGA staff asked for information from the U.S. Department of Commerce. We wanted to learn: the number of commercial officers the U.S. federal government has assigned to countries that are now our major trading partners. We wanted to compare that with the number in countries that are likely to be key trading nations in the future, such as China and India.

It would be interesting, also, to contrast the U.S. figures with the overseas representation deployed by Japan, Canada, and other U.S. competitors.

That information—while collected and available—apparently will not be released for several months. NGA has requested the report. Understanding the resources that are being allocated to this contest is the first step in determining what else needs to be done.

When we could not get more comprehensive data, we made a rough calculation on our own. The Department of Commerce says there are 15 commercial experts stationed by the U.S. government in Canada, our number one trading partner. But Canada has 91 trade experts here in the United States. If this pattern is repeated around the world, it's hard to see how our trade deficit could go anywhere but up.

8. *Implement the market development cooperator program.* The trade bill also explicitly authorizes the department to work with businesses and state and local governments to open new overseas markets for U.S.-manufactured products.

The market development cooperator program, modeled on a successful private sector/government initiative of the Foreign Agriculture Service, challenges government and industry to work more closely together.

The program's objectives are to help justify market opportunities, introduce new products, eliminate barriers, and improve trade relations. We believe this approach holds promise and should receive your strong support.

Mr. Chairman, American creativity, optimism and determination remain as much on display as ever. But, does the international economy allow us the luxury of doing business as usual? The answer is no. Governors hold a responsibility for anticipating the future. They deal in the real world. They must ask themselves the tough questions—and be willing to confront the answers. We have the determination to meet them—and I hope you do too.

So, let us agree on the best way to approach our task and begin today.

[The following information was subsequently received for the record:]

QUESTIONS OF SENATOR ROCKEFELLER AND THE ANSWERS THERETO

Question 1. In your testimony you talk about joint venture promotion as part of the states' trade strategies. Do you think joint venturing is always in the best interest of the American exporter?

Answer. There are a number of reasons why firms pursue joint ventures and a variety of ways in which companies come together. While it is often true that the non-U.S. partner is seeking access to the U.S. market, the American firm can have the opportunity to gain comparable access in the market of his partner's home country. For example, many joint ventures are for the cooperative development of technology which then can be marketed by both partners.

Another benefit of some kinds of joint ventures is that they often strengthen existing U.S. firms that might otherwise have closed down or reduced operations; this can save jobs and sustain growth.

Question 2. We have learned about the proliferation of state offices located abroad. How do these offices coordinate with the U.S. & FCS offices in those foreign countries?

Answer. Of course, it varies depending on the relationship between the state office and the post, the resources both have, and the project at hand. In general, there is coordination when Governors travel abroad, because a Governor often visits the Ambassador and is briefed by the commercial officer at the Embassy.

When Secretary Verity visited Japan in September, he had a meeting with the directors of the state offices in Tokyo. I understand the session was very productive, and I hope federal-state cooperation abroad will continue and expand.

Question 3. Your testimony explains that some states have begun working together in coalitions such as the Mid-South Trade Council. Do you think this will really work when the pressure is on Governors to not only sell exports abroad, but bring foreign investment and new jobs to their particular state?

Answer. Of course we compete in some areas, but states have been successful in developing cooperative initiatives to address common issues. The Mid-South Trade Council not only will work but *has* been working successfully for several years. The member states share costs of space at trade shows and coordinate staff and other resources to maximize their effectiveness abroad. They recognize that they are able to accomplish more collectively and establish a greater presence abroad than any single member state could do alone.

My fellow Governors in three states, Arkansas, Louisiana, and Mississippi, recently formed an agreement to work together to promote growth and development of their three-state region. As part of that, they developed an international cooperation initiative to coordinate activities abroad. Governors Clinton, Roemer, and Mabus recently traveled on a joint trade mission to Japan. So states continue to seek new ways to cooperate in approaching the international frontier, and they are working together successfully.

Question 4. In your testimony, you say that you look to the Federal Government for a sound trade policy, market access, and reliable trade statistics. Do you think the omnibus trade bill recently signed into law is sound policy? Will it help you reach your goals in the international marketplace?

Answer. The trade bill is like the elephant in the story. Whether you describe it as sound depends on what part you are talking about. The bill certainly seeks a stronger, more aggressive U.S. trade policy, and calls upon the administration to define such a policy each year—this I think is sound. And it seeks ways to obtain greater market access—in part by lowering barriers that the U.S. has placed on its own exporters through export controls—which also is sound. The section on trade statistics, by placing on record Congress' support for improved information, is very sound and helpful.

I think it is too early to tell whether the bill will help the states reach our goals. Much of this depends upon U.S. implementation and our trading partners' response. But NGA did participate in the drafting of the legislation, and we hope to participate with Congress in assessing what adjustments are needed, if any.

Question 5. In several places during your testimony you discuss the need for good trade statistics and valuable analysis. What is your opinion of the information you currently receive? What kind of statistics would be most valuable to you?

Answer. The Bureau of the Census this year is providing state-by-state data on exports. This is on an experimental basis only, but it is significant because the data is for 1987. Previously, the data was as much as three years old.

So in terms of what we have been receiving in the past, this is a marked improvement. There are significant problems with the data still. First, no commitment has been made in the Department to continue and improve the data. This is what we were working to achieve in the trade bill.

Second, the data reports the port through which the export passed. This tends to badly skew the efforts of states that are using the data for strategic planning. For example, California recently commissioned an independent study that found Europe to be a larger market for California exports than originally thought. The traffic through California's ports from other states to the Pacific Rim had distorted California's export profile. This must be improved.

Third, the data is not detailed enough. We need to work to make the data more usable for planning purposes.

Finally, there is no information on imports. We need to know what competition we are facing.

If these problems were resolved, the United States would have taken a giant step forward in giving states the tools to be more effective partners in trade promotion.

Beyond the import-export data, I believe we should have better intelligence on trade opportunities abroad and on market trends. We understand that the U.S. & FCS posts abroad routinely develop this information, but it does not work its way to the states. We'd like a better partnership with the federal government on up-to-the-minute market analysis.

Question 6. From your testimony, it appears that you are a proponent of co-location. If co-location is the policy to pursue, what steps can we take to ensure that this transition occurs successfully?

Answer. I am a proponent of whatever works to improve our trade promotion strategy both here and abroad. I do not presume that co-location of state trade officials and federal district office personnel will work in every instance, but in cases where it is determined to be workable and desirable, I don't think we should preclude it from happening. The main thing is to be flexible and seek the most effective way for states and the federal government to work together to help American businesses export.

If a state and district office opt for co-location, agreement between them is needed on, among other things, who pays for what and how the work is divided. These are matters to be worked out between the two parties.

What really is needed is stability of budget and staffing for the district office network. We need to be able to count on continued and consistent federal involvement in trade promotion.

Senator ROCKEFELLER. Our next witness is Allen Moore, who has been introduced already by Senator Tribble, and I would have made the same kind of introduction myself, having great respect for you.

STATEMENT OF W. ALLEN MOORE, UNDER SECRETARY, INTERNATIONAL TRADE, DEPARTMENT OF COMMERCE, ACCOMPANIED BY LEW W. CRAMER, ACTING DIRECTOR GENERAL OF THE U.S. AND FOREIGN COMMERCIAL SERVICE

Mr. MOORE. Thank you, Mr. Chairman, and Senator Tribble. Let me first of all introduce the man with me. Lew Cramer is the Acting Director General of the U.S. and Foreign Commercial Service.

Lew has been in the Department for about four years. He was Deputy Assistant Secretary for Science and Electronics in the Office of Trade Development. And then early this year he became the Executive Director of the "Export Now" program, of which I will have something to say in my comments.

Senator ROCKEFELLER. We welcome him.

Mr. CRAMER. Thank you.

Mr. MOORE. Hopefully you will have a chance to see more of Mr. Cramer soon.

You have my written testimony, and I have a shorter statement which I would like to make. Let me say at the outset, though, that it is just a pleasure to be back. I spent many years up here and know that I will always have a great deal of affection for the place and the people, the people here at the podium, behind you, some of them behind me who I understand were ordered to show up for this occasion.

They have my sympathies.

Senator ROCKEFELLER. Allen, and you offered us, many of us, good advice while you were here.

Mr. MOORE. Thank you. The U.S. and Foreign Commercial Service, as you know and as you said, I think, carries out a very important mission, one that is increasingly becoming known, but one that many of us paid little attention to, I think, over the years.

We promote exports. That is the job of the U.S. and Foreign Commercial Service, and more particularly I think we encourage small and medium-sized companies to get into the export market.

Big companies tend to be in world markets, tend to take care of themselves, although obviously we spend time helping them. But I think that it would be fair to say that our primary focus is small and medium-sized companies.

As you well know, the U.S. trade performance is showing real improvement. The weaker dollar has made U.S. products more competitive abroad. Many companies have increased their commitment to quality and customer service.

We have a new trade law that removes some of the domestic obstacles that confronted American business in the past, and we now have additional leverage to bring down world trade barriers.

Meanwhile, our negotiators, some of those in the Department of Commerce and at USTR, continue to try to pry open foreign markets and battle trade-distorting subsidies, non-tariff barriers and other practices.

American companies today really do have unprecedented opportunities to become exporters, and to some extent they are taking it, to a considerable extent they are taking advantage of it.

In July the trade deficit plummeted 28 percent. I think that is an anomaly. But it is indicative of the trend that we have seen over the last year.

Exports, I think, export growth, a figure we need to look at with some interest, grew to \$26.5 billion while imports in July fell slightly.

Small business really is the focus of the efforts undertaken by the U.S. and Foreign Commercial Service. I think we are often their link to the world's markets.

Last year there were nearly 3,000 firms that took part in more than 100 US&FCS-backed missions and trade fairs around the world. Four out of five of those companies who supplied information regarding their size or experience reported that they were small or mid-sized; forty percent had never exported before or were looking to sell their products in new markets.

The bottom line is that they reached a total of about five million potential customers and reported initial sales of more than \$200 million.

Who is the U.S. and Foreign Commercial Service? It is a people organization. It is really a service organization. Worldwide there are about 1,100 highly-professional men and women. We have 122 commercial offices in 65 countries, and 68 offices here in the U.S.

Altogether our core of people overseas has about 800 years of private sector experience, and they speak a total of 20 different languages.

Just about 40 hours ago I came back from a two-week trip to Asia, to Japan, and on down to Indonesia, Singapore, and Thailand.

In those three countries, I spent time with our foreign commercial service people, and it is just an incredibly impressive group of people.

They are bilingual, they have in many cases lived in those countries for many years. One started in the Peace Corps 20 years ago. He has really never left the region. Another one went to Japan as a student, lived with a family, married the daughter of the family, worked for one of the major banks, speaks fluent Japanese. Just an absolutely impressive attractive group. I know you have been exposed to some of these people.

It really is an impressive group, particularly in that part of the world. But all over the world we have got some fine people. And I think it is important to recognize them as the asset that they are.

Opening foreign markets is one of the President's top priorities. This Administration initiated an "Export Now" program earlier this year. It is backed totally by US&FCS. Mr. Cramer, as I mentioned, has been the Executive Director of that program.

It really represents our efforts to strengthen our resolve, to encourage U.S. firms to begin to sell or to expand their sales overseas. We see it as a partnership between government and industry.

It is not as though Export Now is something that had no roots. It really is sort of an extra special public relations effort to tell people that now is the time to begin to market overseas, and that there are a whole host of resources, domestically and overseas, that are available through their Federal government, and in many cases through state governments and other private organizations. It can help them.

We are really waging an all-out export awareness campaign that summons promotional methods ranging from direct mail, articles in industry publications, speaking engagements, public service radio spots, public service television spots, a very broad array of activity.

In addition to making smaller companies aware of overseas opportunities, we gather a lot of commercial intelligence, track down potential customers, and just basically in a whole host of ways vigorously promote U.S. products overseas.

Let me talk about a few of the things that we have done over the last year. Our Commercial News USA magazine has increased its overseas circulation by over 50 percent since 1985. It now reaches about 110,000 readers overseas.

We have a program called TOP, Trade Opportunities Program. The circulation of that program has gone from 4,000 to 130,000 here domestically, because we are simply delivering better business leads in a more timely manner.

The number of US&FCS-backed trade missions in 1987 jumped 25 percent over the previous year. Something that grew out of the trade opportunities, the TOP program, is something that we call Hot Top, which flags the hottest top leads for special handling.

What happens is that our overseas people see a genuine immediate trade opportunity, they inform Washington, our district office trade specialist quickly deliver those leads to American firms capable of meeting new orders.

We have matchmaker trade delegations, which this year are expected to give more than 150 U.S. companies affordable opportunities to meet with qualified foreign buyers and potential business partners.

We have expanded participation in overseas catalogue exhibits, allowing small firms to test the waters of international trade without even leaving American shores.

When I was in Djakarta last week, Secretary Verity and I opened a catalogue show there, where 600 different firms had catalogues available. And people come in, look at the catalogues, ask for copies of those that they want. And for, I believe it is \$125, these firms are able to participate in four different catalogue shows in that region.

Our foreign buyer program brings overseas businessmen to the doorsteps of thousands of small U.S. firms. And of course, US&FCS

trade specialists continue to equip small companies with the knowledge of how to export.

How, for instance, to develop an international marketing plan, how to set terms of payment, how to locate and negotiate agreements with foreign sales representatives, and how to deal effectively with the business customs of foreign countries.

The U.S. and Foreign Commercial Service promotional activities have helped U.S. businesses across the nation. I have not given you any examples, we have got many. But each week several more firms are catapulted into new stages of growth as they take advantage of our services to unearth overseas markets.

We do not attempt to claim credit for their success. We are simply proud to be part of the process, proud to back American business with what we think is a coherent set of promotional activities aimed at increasing this nation's exports.

That is what the US&FCS is all about. In many ways that is what the International Trade Administration is all about. We are talking here today about the US&FCS, but US&FCS is one part of ITA.

Our Office of Trade Development, which includes our industry specialists, and our Office of International Economic Policy, which is made up of our regional and country specialists, tend to work together.

Whenever we are putting together a mission, a show, an analysis of unique opportunities—we are, for example, working now to assess the implications of the EC 1992 effort, the internal market that has tremendous implications for U.S. companies. It is an all-ITA effort: US&FCS in the field, the IEP and trade development people here in Washington assessing the implications of the 300 plus protocols that the Europeans are putting together.

Let me stop here. I do appreciate the opportunity to talk a little bit about the U.S. and Foreign Commercial Service. I have to confess that even when I was here in the Committee I did not pay a great deal of attention to it.

But they really are our soldiers in the field that can provide incredible amounts of information, help, assistance. And we have got a lot to be proud of.

Let me hear your questions. I hope one of you will perhaps take the opportunity to ask about our budget.

Senator ROCKEFELLER. Senator Danforth, do you have any comments or opening statement or remarks that you would like to make?

OPENING STATEMENT BY SENATOR DANFORTH

Senator DANFORTH. Mr. Chairman, just opening statements, not questions?

Senator ROCKEFELLER. Both are fine.

Senator DANFORTH. Well, it is always good to see Allen Moore again.

As Allen undoubtedly has noticed, after he left they threw us out of our room. But we will get it back when we get the majority.

Are you going to be here when Don Loso testifies?

Mr. MOORE. I probably will not be.

Senator DANFORTH. Good. I say good because he is in St. Louis, he is involved in our export activities. He is the Commerce Department's man in Missouri, and he has done such an exceptional job, and I mean that very sincerely.

I have known Don for a number of years. He has done such an exceptional job in working with our businesses and getting them involved in exporting that I have always been concerned that Washington would discover him and bring him here.

So if you could leave immediately after your testimony I would appreciate it.

I think, seriously, that your efforts are extremely appropriate right now, because we passed a major trade bill. The President just signed it a few weeks ago. It is designed to open up the markets of other countries.

I think that the next question for American trade interests has to do less with what government is going to do than with what the private sector is going to do. You can force open the markets of other countries, and we undoubtedly will be doing that, if we utilize the legal tools which have been made available to us.

But the real issue now is whether American business is going to get the lead out of its pants. I think that your Department can help it do that.

I think that there are a lot of people who might be interested in trade, but it seems to them that it is something that is just so far from their talents, their abilities.

They do not know what is up, they do not know how to do it. They think that this is something maybe Coca-Cola can do, but that they cannot do. To provide that sort of information, and that sort of stimulus to them is so important to do, and that of course is what your Department does.

It does it in Washington and, as I pointed out in the Midwest, it does it in the person of an extraordinarily able person, Don Loso.

So having made my comment, I will ask you just one question. Do you have anything you would like to say about your budget?

Mr. MOORE. Well, I did not have it in my prepared testimony, but since you have asked, we have a budget problem.

Now, one can argue about how big that budget problem is. And needless to say, there are many venues in which this issue gets discussed.

I am not here to talk about who proposes what, who says what. But obviously inside the Department of Commerce we have to deal with this issue within the Administration and we have to deal with the issue when we come to the Hill.

I am very concerned about where we are right now in this budget season for 1989. First of all, we do not know where we will be for 1989 and that is always a problem. I think that we always hear that. That is the line I have heard many times.

It is a real line, it is a real problem. Here we are a couple of weeks away from the new fiscal year and we do not know how much money we will have to spend. And this past year we did not know how much money we would have to spend until this summer.

Now, that sounds a little strange, and I will not go into the details of the sort of, I think, one time unique situation that ITA

face where we had \$10 million of our budget held hostage until the summer.

But as I say, that was a unique situation. But it left us hamstrung. Next year we have got hopes and plans, and we are not sure where we stand. The Administration sought an extra \$9 million for the US&FCS.

Some people might argue that that is not nearly enough. That is what we asked for. We believe that that will help get us back, if you can believe this, to the strength overseas that we had in 1985.

I do not want to draw—that is not a perfect comparison because, we could get back to the numbers. I think we have actually upgraded the quality of some of our people overseas.

But the problem that has occurred overseas, needless to say, is that the decline of the value of the dollar has meant that those expenses that we incur in local currencies in those countries where the dollar really has declined, are very, very hamstrung in their activity.

And what we do is, we don't fill foreign service nationals positions as they are vacated, we cut back here in order to try to hold our posts harmless over there, and we tighten up on all the administrative costs that we have to pay in local currencies.

And we ask the sacrifice of our people over there who, although they may have subsidized housing, subsidized schooling for their children and a commissary where they can buy their food, the rest of their life, the life that they live in the local community, is now half again as expensive or more. And we simply ask for that kind of sacrifice.

Senator DANFORTH. I hate to interrupt an answer to my own question, but I have a meeting with Secretary Burnley in my office in two minutes.

Mr. MOORE. Senator, I am sure there are many others who are interested in this, and I know that you will follow it with interest. And I understand.

Senator DANFORTH. I am very interested and would invite you to elaborate on it, on Senator Rockefeller's time.

Senator ROCKEFELLER. Thank you, Senator Danforth.

Mr. MOORE. I am about through here, Mr. Chairman, on this particular subject.

We have a House bill, we have a Senate bill. It appears now as though the budget of ITA will increase about \$9 million, that it will be about \$9 million higher than, and this is for all of ITA, about \$9 million higher than what the President asked for.

However, in that figure, about \$20 million will be earmarked for some grant programs that the Administration does not want.

Now, one can argue the merits of those. But if in fact those earmarks do occur, and they may well, the net effect is that we are down about \$11 million inside ITA. And we believe that the hit on the U.S. and Foreign Commercial Service will be about \$5.5 million.

Senator ROCKEFELLER. May I just ask a question relating to some statistics in just the FSC part?

According to Alex Good, there are 201 authorized positions for Americans overseas. In October 1986, 183 of these were filled. A year later, October 1987, only 161 were filled.

That is 20 percent of the overseas American positions vacant. Alarming, I would think, in the middle of the global trade competition that we are in. Now, this was prior to your entering the Commerce Department.

In case I missed it when I was out of the room, what are the figures at the present with respect to the FSC?

Mr. MOORE. In commercial officers, we are now down at 151.

Senator ROCKEFELLER. So that is down further?

Mr. MOORE. That is correct. In foreign service nationals who really play a particularly important role overseas, in 1985 we were at 525 and today we are at 460. And we would like——

Senator ROCKEFELLER. How would you describe the cost of that loss to our country?

Mr. MOORE. I could not begin to put a number on it.

Senator ROCKEFELLER. I do not mean in numbers.

Mr. MOORE. I understand. It is a significant shortcoming.

It simply means that now, when there is this opportunity, and a tremendous amount of interest in exporting, partly because—public awareness has increased, our "Export Now" program, newspaper stories, concerns about the trade deficit, a changing world in which companies increasingly are realizing it really is a global economy in many ways.

And it is time for many American companies to, whether they like it or not, begin to rethink corporate strategies. And their ability to get over this barrier depends on, one, their interest, two, their willingness, and three, the kind of support and assistance we can provide. We need to provide more assistance.

Senator ROCKEFELLER. Let me ask another question, Allen.

The Federal-state partnership is a new area that has surfaced for the U.S. and Foreign Commercial Service. Co-location is just one of the pieces of that larger question that is of a Federal-state partnership.

There are rumors of a growing tension between Federal and state governments over what role each should take in export enhancement, which would be fairly understandable, I might add.

Can you tell me a little bit about that, the Federal-state partnership? Where you see its advantages might be, where you see its problems might be?

Mr. MOORE. Obviously, we welcome anybody who wants to encourage exports.

I have to say that in recent years the state activity overseas and domestically has been skewed very heavily, I think, toward seeking inward investment overseas. A week and a half ago, I was in Tokyo at a meeting with the state representatives who are in Tokyo, there were about 30 of them I think. Thirty-five states now have an office and I think 30 states were represented at this function.

A couple of states spent as much as half of their time promoting exports, but most of them still, they do not like to admit it, are over there seeking inward investment.

Now, I am not being critical of that, but I think it is important to understand what those activities have been. There is a slow evolution as they are beginning to try to take advantage of increased export opportunities. We work with them very closely.

You asked about co-location overseas at one point. One problem in that regard, first of all, is when you have got so many states it is hard to find a single place that would work.

Also we have got security problems in many countries overseas, and we are actually pulling some of our foreign commercial officers back into the embassy. We do not like to do that because it is that much more difficult for people to sort of get through the security. But for security reasons, we are being forced to do that in some cases.

Let us talk domestically for a moment. We tried to have joint co-operative relationships in every state. We have not expanded our resources domestically.

Frankly, I think that given budget constraints and given the problems with the dollar, that we have placed a higher priority in trying to beef up, or preserve and then beef up, our overseas capability. And we have basically kept the domestic officers. The domestic personnel have shrunk some.

Domestic activity by states has increased to help take up some of the slack. What we try to do is work closely with every state. We, as you know, have experimented with a number of domestic co-location alternatives.

Co-location sometimes is a scare word. Not in our judgment. We have got a number of different kinds of arrangements with different states that we are looking at. In fact, we have got a management analysis of the various alternatives going on now in the Department.

Senator ROCKEFELLER. Let me interrupt once again, Allen. You raised that interesting point, as for the state folks overseas, that they are really spending at least a substantial part of their time on looking for businesses from those countries, Tokyo to move into West Virginia, wherever, as opposed to the export side of it.

Can you quantify that without being held responsible for accuracy? Does it appear to you that as much as 75 to 85 percent of their efforts are in fact toward enticing investment from that country toward this one, as opposed to exporting from this one to that one?

Mr. MOORE. I would say, my own hunch is that it is in the realm of, on average, 75 to 80 percent.

Senator ROCKEFELLER. Does that then come into direct conflict with your mission?

Mr. MOORE. It is not direct conflict.

Senator ROCKEFELLER. And I understand your hedge on that. But you are trying to promote exports, they are looking for opportunities to come this way.

There is at least some discomfort in that spirit of co-location, so to speak. I am not asking for you to be negative. I am simply trying to draw you out.

Mr. MOORE. No. And I am not hiding anything. It is just two different things.

Senator ROCKEFELLER. But has it worked to your disadvantage?

Mr. MOORE. I do not think so.

Senator ROCKEFELLER. Why not?

Mr. MOORE. If you mean, would we not like them to spend more time promoting exports and provide more human resources for that? Sure.

But that is a resource that has never been there. That was not why it was designed. To the extent that they are beginning to move into that export promotion activity, that is great.

If they want to beef up their offices further, that is terrific as well.

Senator ROCKEFELLER. Governor Baliles said that our trade center in Japan is in disrepair. And I have heard that about other trade centers. What is the FCS view of that?

Mr. MOORE. I do not know too much about our trade center over there. I would be happy to respond on that one.

Senator ROCKEFELLER. If you could, please.

[The following information was subsequently received for the record:]

As a result of the decline in the dollar of approximately 45 percent since 1985, runaway inflation rates in many countries, and Gramm-Rudman-Hollings reductions, we have closed Regional and Export Development Offices (EDOs) in Sao Paulo, Sydney, Milan, Singapore and Bonn. Tokyo is one of the four remaining EDOs (also called trade centers), and it, like the others, now operates on a cost-recovery basis, like the rest of our trade event program. Costs such as space rent, utilities, supplies and upkeep are pro-rated and factored into the participant contribution we ask from firms who participate in events staged in the facility.

We have already started a modest refurbishment of the Tokyo center. New graphics for the exhibit support system have been installed and the facility will be repainted during FY 1989. We really do not have the resources, right now, to do any more.

Senator ROCKEFELLER. Could I also get you to reflect on this CIMS matter that it was meant to be operational by the end of 1987, that it does not appear to be now.

I may be wrongly informed, but I am just interested in what you would say for the record on that.

Mr. MOORE. This project is a mammoth undertaking. It has also been hampered this year by this uncertainty about funding. But I am not trying to hide behind that.

I think inherent in the project itself, it is quite huge. I mean, it is a mammoth undertaking. We now have the hardware in all of the states. We have got 16 countries hooked up hardware-wise.

We expect to have most of the world hooked up by early next year. Then what do we have? Then we have a program, the software of which is behind. The updating of that software is going to be an inordinately expensive proposition, if it really is to achieve what we wanted it to achieve.

In the new trade act there is a national trade data bank that has two parts to it. One part is intended to build on CIMS. But we do not have the resources for that.

We are moving ahead, we are making progress. As I say, it may be that early next year someone will be in a position to say, CIMS is now an international system. But I am not going to pretend at this point that CIMS by early next year will do everything that people said it would do.

Senator ROCKEFELLER. So in a sense you are saying that it may be out of date.

Governor Baliles suggested that some information that they receive is a year or a year and a half out of date. So it may be out of date. So what you are doing is kind of marking time, doing the best

you can, hoping that somebody will give it more money so that you can update it to where it ought to be?

If nobody did, at some point you would have to question, is this a sustainable path if we have an international system of information but which is constantly behind by a year or a year and a half?

Mr. MOORE. That is correct.

Senator ROCKEFELLER. I may be quite incorrect in that it may be better to be hooked up internationally on a modern system a year and a half late than not to be hooked up at all.

Mr. MOORE. I think it is worth moving ahead, and I think once we have got the system hooked up and we begin to look at exactly what it is providing, and the shortcomings therein, a decision will have to be made whether we want to make the investment, whether it is the right thing to make the investment, to create a system that would do everything that we were hoping.

Senator ROCKEFELLER. How much money goes for that at the present time? Lew, do you know?

Mr. CRAMER. Senator, it is roughly about \$10 million in our budget this year for all of export promotion service, and about \$4 million is for CIMS.

Senator ROCKEFELLER. That is not much.

Mr. CRAMER. If I might add, Senator, also to the extent the private sector can be more involved in the work that CIMS does, and in ensuring that we have the kind of services that businesses want.

We want to ensure that that happens to make it more responsive to their needs in the future; and that is another avenue we are pursuing right now.

Senator ROCKEFELLER. Is it in the long-term plan for states to be on the receiving end of this CIMS system also?

Mr. MOORE. I am going to hedge on that one, because we have not made a final decision.

One of the problems here is the whole question of user fees and whether we are going to charge for the information that CIMS provides.

If we do that, then we need to figure out a way to make sure that all users are charged. That is a complicated question. We would like to have the system as broadly available as possible. It is not clear just how best to do that.

Senator ROCKEFELLER. Let me ask another specific question of you with respect to the U.S. and Foreign Commercial Service advisory council.

Alex Good did want to establish an advisory council. All in all I find groups and committees tend to be useful, because they simply involve more people in the process, you have more advocates, you have more interest. Where does that stand?

Mr. MOORE. We have in the security clearance process, currently, the core of the membership, we are looking at 30 people, and I think close to that number are now being cleared.

Senator ROCKEFELLER. So that is coming along?

Mr. MOORE. It is coming along, and it should move ahead.

Senator ROCKEFELLER. Mr. Good was talking about a questionnaire which would go out to American business and would ask them about what they felt about the services and activities of what you and Lew oversee.

Has that been done? If not, why? What is your view toward it?

Mr. MOORE. OMB has given us verbal clearance on the form. As you know, they have to clear off on all forms.

I do not remember when that is scheduled to go out, but it is in the near future.

Mr. CRAMER. Next month, Senator, we are intending to do that. It has been prepared and next month is our timetable.

Senator ROCKEFELLER. OMB actually took the questionnaire and read it? Is that what you mean? What were they looking for?

Mr. MOORE. I think it is a requirement of the Federal Paperwork Act, frankly, that they have to agree that it is useful.

Senator ROCKEFELLER. I will sleep more easily.

I have to press on, yet I do not want to deprive you of anything that you want to say.

Aside from your testimony, what does your gut tell you about where we are headed? Are we doing what we ought to be doing at the Federal level? How worried are you about it? Who do you have to fight with about it? Is there anything else you want to unburden yourself of?

Mr. MOORE. Well, thank you for that, that is very tempting.

I think Senator Danforth made the comment, I think his direct quote which rang familiar in my ear was that U.S. business has to get the lead out. There is some need for that. And I am not here to bash business, nor to bash trading partners, nor to bash my Department or government efforts.

We need a major cooperative effort to bring the American people, American government officials, and ultimately American companies to the point where they recognize that this truly is an international market, and we are not going to turn back the clock.

Companies in the states have enjoyed the largest, richest, easiest market of anyone. And they have gotten maybe some bad habits. Well, not bad habits. They have developed working habits that do not translate very well or very easily into the international marketplace.

We can help them. We can break down particular barriers for particular kinds of products overseas. We can offer assistance to them on how to take advantage of that opportunity. But we cannot make them do it.

If you are a company in the Southeast, the Northwest may look like, just talking about the United States, may look like a tough market to crack. I am not saying that we are blowing an opportunity, nor that we can turn this around overnight.

But we really do need to figure out a way to make people realize that it is not like it was here in this market, that because it is such an easy market, because it is so open, the rest of the world has had an easy time of figuring out what we buy, what we like, and getting into the market.

Now, we have benefited from that. We have this incredibly high living standard. Our per capita income now is on the order of the Japanese and our living standard is way above theirs, for a whole host of reasons.

One of those reasons is that we have been able to enjoy a very wide range of relatively inexpensive products. But it is time for us

to realize there are limits to that, and to pay more attention to selling in a world marketplace.

The way to solve the trade deficit is the hard way, selling overseas. Not the "easy way" which is to erect new barriers. That is a hard sell. And it is an expensive sell. But that is where the future is.

Senator ROCKEFELLER. I happen to agree with you, Allen. I think that that is shown time and time again.

I keep trying to tell our people in West Virginia that in terms of exporting there are only two other states that export a greater proportion percentage of what we manufacture and produce than does the State of West Virginia.

And yet it is very hard for our businesses to grasp that we are in fact an exporting state to a much greater proportion than most others, relatively. And for West Virginia, which is about \$1.5 billion annual state budget, it is a \$2.6 billion export business that we are into, trying to get people, to get businesses to understand that it can be done.

It certainly will not be done without removing the lead, as you and Jack have indicated. So I agree with that. Therefore, it must be sometimes discouraging to some of the people in your operation who are trying their best and then do not see the reaction from the American business side, and that that would from time to time perhaps affect their morale, particularly as private sector salaries are always higher than public sector salaries.

But I would hope that it would not, because I think the work that the U.S. and Foreign Commercial Service does is just extraordinarily important. You have an excellent person in Roger Fortner in our state.

I depend upon him a great deal. I wish a lot of folks depended upon him a lot more than they do, and I think one day they will, or his counterpart. Because we are learning that lesson slowly. But as you indicate, we are learning it extremely slowly.

With that, Allen, I would like to thank you and your able associate, and look forward, should I say look forward to seeing you next year? Or should I not say that? We look forward to seeing you at any time, Allen, and in any place.

Mr. MOORE. Thank you, Mr. Chairman.

Senator ROCKEFELLER. Thank you very much.

[The statement and questions and answers follow:]

STATEMENT OF ALLEN MOORE, UNDER SECRETARY FOR INTERNATIONAL TRADE,
INTERNATIONAL TRADE ADMINISTRATION, DEPARTMENT OF COMMERCE

Mr. Chairman and members of the committee: I am pleased to join you today to discuss the activities of the Commerce Department's United States and Foreign Commercial Service (US&FCS). The US&FCS carries out an important mission: Working alongside American industry, we promote U.S. exports and encourage more small and medium-sized companies to market their products abroad.

It's good to come before you at a time when America's trade performance is showing remarkable improvement. A weaker dollar has made U.S. products more competitive abroad. Our producers have redoubled their commitment to quality and customer service. Congress has passed a sweeping trade bill that removes some of the domestic obstacles confronting American business. Throughout the world trade barriers are coming down. And our negotiators continue to pry open foreign markets and battle trade-distorting subsidies.

American exporters are afloat on a sea of opportunity. In July, the trade deficit plummeted 28 percent to its lowest level in three and a half years. Exports grew to \$26.5 billion while imports fell.

Small business is the focus of efforts undertaken by the U.S. and Foreign Commercial Service. Last year, nearly 3,000 firms took part in more than 100 US&FCS-backed missions and trade fairs around the world. Four out of five were small or mid-sized. Forty percent either had never exported before or were looking to sell their products in a new market. The bottom line is that they reached a total of almost five million potential customers and reported initial sales of more than \$200 million.

Forecasts say that small firms will create most of America's new jobs in the years ahead, and the United States promotes innovation and economic vitality by encouraging them to compete in world markets.

America is going global. U.S. executives, recognizing that exporting is the key to retaining their competitive edge both here and overseas, are backing top-quality products with aggressive salesmanship. The U.S. and Foreign Commercial Service is their link to lucrative markets in all parts of the world.

Enabling us to assist exporters are 1,100 highly professional men and women. With 122 commercial offices in 65 countries, plus 68 offices here in the United States, the US&FCS helps to sharpen the international competitiveness of American Business. Together, our corps of overseas officers holds nearly 800 years of private sector experience and speak a total of 20 different languages.

Recently, eight of our overseas posts were approved for minister counselor status—those in London, Tokyo, Bonn, Mexico City, Rome, Ottawa, Paris, and Beijing. This opens doors to our staff and makes us more effective in representing U.S. commercial interests overseas.

Opening foreign markets is one of the President's top priorities. The administration's "Export-Now" initiative backs efforts by the US&FCS and strengthens our resolve to encourage U.S. firms to begin or expand overseas sales activities. "Export Now" represents a solid partnership between government and private industry—one that works. Spearheaded by the Department of Commerce, it alerts U.S. companies to export opportunities around the world.

Under the banner of "Export Now," US&FCS is waging an all-out export awareness campaign that summons promotional methods ranging from direct mail and articles in industry publications to speaking engagements and public service radio spots.

Among these efforts was a cooperative nationwide advertising supplement in the May 23 issue of Business Week. This supplement swept aside myths that keep small companies from exporting, listed do's and don'ts for the executive who wants to market his or her products overseas, described the many Commerce Department programs available to American business, and directed firms to reliable sources of export assistance.

In addition to making small companies aware of overseas opportunities, we gather valuable commercial intelligence, track down potential customers, and vigorously promote U.S. products.

During the last year, I'm proud to say that we've made further improvements. Let me point to just a few examples . . .

The number of US&FCS-backed trade missions in FY 1987 jumped 25 percent over the previous year;

Planning and coordination of our trade events continues to improve. The number of events organized by US&FCS increased 13 percent while our trade specialists recruited 24 percent more participants; and

Overseas circulation of Commercial News USA magazine has swelled by nearly one half since FY 1985, now reaching 110,000 readers.

Circulation of our Trade Opportunities Program (TOP) has gone from 4,000 to 130,000 because we're delivering better business leads in a more timely manner.

Just ask INTEC, a West Virginia distributor of heavy construction and mining machinery. The company recently sold \$630,000 worth of equipment to Chile last fall, thanks in part to the trade opportunities program.

This is the latest in a series of successes for INTEC. Company executives have vigorously pursued international business for more than six years and today, with help from our district office in Charleston, they're chasing down opportunities in India.

Springing from the success of our "Top" program is "Hot Top." Our overseas commercial officers flag the "hottest" top leads for special handling. Then U.S. district office trade specialists rapidly deliver the leads to firms capable of meeting the order. We follow up with both the American firm and the overseas importer.

This effort is turning up rewards. Last year, for example, Pentron Products, Inc., a California company, won a small but promising contract with a firm in Bombay, India as the result of a hot top lead. Now company executives anticipate a long-term business relationship with their newfound trading partner. Results of the hot top program are encouraging, and we recently expanded the pilot to include 24 countries.

One of our most popular promotional initiatives is the matchmakers trade delegation, a type of a trade mission tailored to suit the needs and resources of small, new-to-export companies. Fifteen to 25 participating U.S. Executives are matched by our commercial staff with potential agents, distributors, licensees, franchisees or joint venture partners. In addition to appointments with carefully screened prospects, each participant can take advantage of an on-site marketing seminar about how to do business in that country.

Nine matchmaker delegations assisting more than 150 companies are scheduled for this year. The first 10 qualified firms to sign up for each matchmaker can cut costs through a special arrangement with the Small Business Administration.

We continue to build upon the success of our overseas catalog exhibits, which give small firms the opportunity to reach foreign buyers without leaving the United States. Recently, a super-catalog show organized by US&FCS featured the product literature of more than 900 companies in four cities throughout the Republic of Korea.

Not long ago, more than 300 U.S. small business executives were given an opportunity to talk with senior foreign commercial officers during our highly successful "Asia/Pacific Business Outlook 1988 Conference." Co-sponsored by the US&FCS and the school of business administration of the University of Southern California (USC), this event generated tremendous enthusiasm among local executives.

Among our many Caribbean basin trade promotion initiatives, we have created a council to provide expert advice and assistance on strengthening economic development efforts. The CBI business promotion council is a private sector advisory committee of 30 senior executives with business experience in the Caribbean basin. This group lends support and advice to the CBI task force and helps open new market opportunities for American exporters.

Here at home, we have undertaken a study to determine how our district offices can work alongside state government representatives across the Nation. For some time, we have enjoyed co-location arrangements with Government agencies in seven States—Maine, Rhode Island, Florida, New York, Kansas, Texas, and Oklahoma. Co-location means that US&FCS district offices carry out their activities and complement the efforts of state economic development agencies by operating out of the same location.

Not long ago, we signed a new and innovative co-location accord with New Mexico, and the US&FCS is now moving toward similar agreements with several more States. Progress has been encouraging, but we also want time to build a solid track record before moving forward with this initiative.

In addressing budget constraints, the dollar's impact on our purchasing power, and the necessary reallocation of resources, we must not overlook one thing: U.S. exports are booming. Overseas sales by U.S. firms have swelled by nearly one-third during the last year.

Demand for our services is growing, and I would like to outline some of the steps we're taking to help small business market their products abroad.

BUILDING EXPORT AWARENESS

The critical first step in promoting exports is to make U.S. firms aware of the tremendous assistance available to them both through Government and private agencies. We reach a broad business audience through hundreds of advertisements, news articles in leading publications, interviews broadcast over television and radio, and helpful seminars that are held nationwide.

We recognize significant efforts to boost overseas sales by honoring companies and organizations with the coveted "E" and "E Star" Awards. To date, more than 1,800 representatives of private industry have received the "E" award, and 300 of them have gone on to win the "E Star" award by continuing to expand their overseas markets.

MARKET IDENTIFICATION AND ASSESSMENT

To help small companies identify promising market opportunities, We offer a wealth of statistical information and market research. Our overseas personnel constantly gather and analyze commercial intelligence and pass it along to the United

States for publication in Overseas Business Reports, Foreign Economic Trends, and in-depth International Market Research Reports.

Our comparison shopping service answers the key questions that U.S. firms encounter as they look into overseas sales opportunities:

Is there a market for my product?

What's the going price?

Who are my competitors?

How can I promote and distribute the goods?

In addition, we examine product standards and trade barriers. This service, which is currently available in 15 countries, has won rave reviews from small firms that not only receive practical information but also save on the cost of travel. Next year, we hope to deliver the comparison shopping service in a total of 30 countries.

To compete in world markets, U.S. companies must have access to timely and accurate commercial information on overseas market opportunities. Computerization of this information is the key to enhancing U.S. firms' ability to meet foreign demand.

We're making significant progress toward the completion of our worldwide commercial information management system (CIMS). It has been installed at all but one of our district offices, and many overseas posts are scheduled to be brought on line by the end of this year. CIMS will speed the flow of export data and market trends among US&FCS offices. It should also allow our personnel to quickly retrieve and distribute the names of foreign buyers and U.S. suppliers. With CIMS, we will become a more efficient trade promotion organization. Its technology will better enable us to satisfy the unique requirements of each company that we're called on to assist.

EXPORT COUNSELING

Nothing takes the place of learning how to export from an expert. That's why we will hold upwards of 3,200 domestic seminars on topics ranging from the basics of exporting to finance and foreign credit insurance. Most of them will be co-sponsored by our District Export Councils (DECs), which bring together 1,700 business leaders who volunteer time to their communities in order to increase U.S. exports.

US&FCS trade specialists furnish exporters with the practical information needed to market products abroad. This includes the planning and management fundamentals of international marketing, setting terms of payment, negotiating agent/distributor agreements, and dealing with language and business customs of a particular country.

In 1988 our district office personnel will conduct more than 168,000 counseling sessions with individual firms. Another 100,000 will be led by our overseas commercial officers. About 90 percent of these sessions will help firms that employ fewer than 250 workers.

We also help small companies gain access to financial support from organizations such as the Small Business Administration (SBA), the U.S. Export-Import Bank, the Overseas Private Investment Corporation.

TRADE CONTACT SERVICES

We offer U.S. companies a host of programs designed to help them pinpoint and select foreign buyers, agents, distributors and importers. We lend guidance in their efforts to advertise new products overseas and qualify prospective trading partners.

One of our most popular contact programs is the agent/distributor service, a custom search that gives each U.S. company the names of up to six foreign representatives interested in American products.

It is thanks to the agent/distributor service that the Watlow Electric Manufacturing Company of St. Louis, Missouri signed an agreement to sell electric heating equipment to Portugal. This year company executives expect more than \$100,000 in sales to Portugal.

World Traders Data Reports help companies qualify foreign firms as prospective business partners by providing background information on the creditworthiness of foreign business prospects.

Commercial News USA is another important method of promoting the products of new-to-export and new-to-market companies. Each issue of this monthly publication reaches over 110,000 overseas agents, distributors, end-users and foreign government purchasing officials. Product photos and descriptions bring export sales and agent inquiries from all corners of the world. During FY 1988, CNUSA will assist over 1,400 forms, almost 90 percent of which are small or new-to-export.

We also intend to pass "early warning" notices on Asian and African International Development Bank projects to U.S. engineering firms and equipment suppliers. We have established a similar capability in Washington with the World Bank and the Inter-American Development Bank.

TRADE EVENTS

In addition to the matchmaker trade delegations that I described earlier, US&FCS offers a wide spectrum of trade promotion events to help U.S. firms showcase their products to the right overseas prospects.

The foreign buyer program matches visiting representatives or end-users with U.S. suppliers. Small businesses save the costs of overseas travel, freight and exhibition. In FY 1987, we expanded the number of shows supported under the foreign buyer program to 18, a 45 percent increase over the previous year. In FY 1988, more than 3,000 new-to-export/new-to-market firms participating in foreign buyer programs will meet 70,000 visiting businessmen and women. Some 1,250 of the new-to-export and new-to-market companies will receive special export counseling from our trade specialists before, during and after the show.

This year almost 3,000 U.S. firms will participate in 96 major foreign exhibitions and 49 trade and seminar missions staged on a cost recovery basis. Four of five of these firms are either small or mid-sized. Participation is expected to produce over \$200 million in off-the-floor sales, 80,000 trade leads, and 1,400 agent, licensing and joint venture agreements.

Our catalog and video-catalog shows in FY 1988 offered more than 1,600 U.S. companies a low-cost opportunity to explore overseas markets. For about \$250 for a catalog show and \$1,200 for a video show, each participating company walked away with more than 50 trade leads.

Recognizing that State and local government entities are a growing force in export promotion, we provide planning and overseas logistical support to trade missions organized by States, local governments, chambers of commerce, trade associations, port authorities and other export-oriented groups through out state/industry organized government approved mission program.

The U.S. fashion jewelry trade mission to Japan in May 1988 is an excellent example of the payoff that U.S. companies receive from these events. Participants reported immediate sales of \$754,000 and \$3 million in expected sales over the next 12 months. This year we will support 30-35 S/IOGA missions, a 30 percent increase from FY 1986.

We also support well-planned overseas exhibits managed by private sector trade fair organizers. Twenty-four certified events backed by 10 private exhibitors gave 465 U.S. companies an opportunity to test demand for their products in eight nations last year. The US&FCS trade fair certification program often encourages participation on the part of small companies by bolstering their confidence in sound promotional events.

GOING BEYOND WHAT US&FCS ALONE CAN DO

Other organizations have the interest and wherewithal to promote exports too, and we have no intention of duplicating their efforts. That's why we work closely with district export councils, State and local governments, chambers of commerce, trade associations, the Small Business Administration and other Federal agencies.

Our promotional activities have helped U.S. businesses across the Nation. I've given you just a few examples. Each week several more firms are catapulted into new stages of growth as they take advantage of our services to unearth overseas markets. We don't claim credit for their success. But we're proud to back the entrepreneurial zeal and determination of American business with a coherent set of promotional activities aimed at increasing our Nation's exports. That's what we're all about.

I appreciate having the opportunity to talk with you about the export assistance programs of the United States and foreign commercial service, and welcome your questions and comments.

QUESTIONS OF SENATOR ROCKEFELLER AND THE ANSWERS THERETO

Question. In your testimony, you mention a study you have undertaken to determine how the district offices can work alongside state government representatives. What is the purpose and status of the study?

Answer. The Department's Inspector General has just delivered his final report. The purpose of the study was to evaluate approaches for delivering export promotion services to the U.S. business community. This study was a complete review with US&FCS staff and representatives from state, multipliers such as the District Export Council or chamber, and the private sector. A copy of the completed report is attached.

Review of these findings will play an important part in management decisions as to how best to serve the small and medium size business firms in developing exports and international business.

Question. How do you envision the federal/state relationship for export promotion projects? How can we best work together?

Answer. Although every state is different, we have found that the worldwide network composed of US&FCS overseas posts in 65 countries and domestic offices in 67 U.S. cities is the core for all other federal and state programs in support of the American business community. Virtually all export promotion projects use the unique resources of the US&FCS foreign posts, the communications and database of the Commercial Information Management System (CIMS), and the counseling outreach of the domestic district office staff. Although any example is atypical, in Grand Rapids, Michigan, the US&FCS Trade Specialist is housed in the city's office space together with two state government staff to maximize the utilization of both US&FCS and Michigan programs. In New York, trade missions and trade opportunity (TOPS) leads are coordinated with the US&FCS district office in New York City as well as each overseas post concerned.

Our challenge now is to leverage our strengths with those being developed by the states and local governments.

The report of the Inspector General concludes, appropriately, that there is a unique and necessary role for the federal government to play domestically in promoting exports. The report discusses various options for getting the federal and state efforts to cooperate effectively. We have tried to be flexible in defining working relationships with states. Having the federal and state offices work in close cooperation and in geographic proximity are basic objectives. We have a number of arrangements in different states which are built on the strengths of the two offices.

The best way to work together is to cooperate, share information, utilize the strengths of the "partner", and, as appropriate, engage in joint planning. The federal presence and resources strengthen state and local efforts, just as the local resources improve our effectiveness.

Question. In your testimony you elaborate on expanded services. In this hearing, as in the first oversight hearing, I am looking for a way to measure the value of these services. Do you have any suggestions?

Answer. We know of many individual success stories that have resulted from our activities. In addition, we have been able to collect results from some trade events and are in the process of obtaining OMB approval for a follow-up questionnaire which will establish more specific links between our efforts and export results. However, the US&FCS has not established an empirical method of measuring our total success in promoting this nation's exports.

We continue to work toward the goal of establishing an empirical method of measuring our success. The reason this is so difficult is because export decisions are functions of so many variables—product mix, experience, information, assistance, financing, pricing, exchange rates, persistence, and luck.

Question. Over the past several years, your organization has been responsible for promoting U.S. exports and for assisting the business community with export licensing problems. Some of the estimates we have heard in the past are that offices in high-tech areas like San Francisco were spending thirty to forty percent of their time on export licensing work. Has there been a change in your export control case load? If so, how has it changed and why?

Answer. While export licensing workload does vary from one domestic office to another, a survey conducted by US&FCS in March 1988 indicated that less than 10 staff years, out of a total field staff of 310, was being devoted to export administration counseling by US&FCS domestic personnel. Factors such as the computerization of the Bureau of Export Administration (BXA) licensing, changes in BXA's administrative procedures, establishment of a BXA field office in Long Beach and implementation of the trade bill may affect our future workload. The new Memorandum of Understanding (MOU) with BXA will serve to further improve our efficiency in serving the business community through greater cooperation and coordination.

An independent study of this case load and how it is changing is being conducted for BXA by Peat Marwick. The draft report is due in late December with the final report scheduled for mid January.

Question. What have you done, given the effect of the dollar's depreciation and local inflation, about the 60 percent of total expenditures overseas that are exposed to such effects, to ensure that you accomplish your mission?

Answer. Because Foreign Service Nationals' salaries, officers' housing and educational allowances, office rents, and other such costly items are paid in local currencies, exchange rate movements and local inflation exert tremendous influence over our entire budget. In order to live within a budget whose overseas purchasing power has been drastically reduced, we have, since January 1986: terminated the services of over 150 contract workers overseas; left over 20 officer positions vacant overseas reducing on-board strength to 151; reduced FSN staffing from 480 to about 450; closed Export Development Offices in Sao Paulo, Sydney, and Milan; closed Regional Export Development Offices in Singapore and Bonn. (These are offices which had permanent space for displaying U.S. products. US&FCS still maintains commercial officer presence in these locations and continues to conduct export promotion activities); reduced spending on direct program support (in-country travel, printing, etc.) from 16% of the overseas budget in FY 1985 to about 6% in FY 1988; reduced district office staffing from 365 to approximately 300.

The final point, reducing domestic staff, was aimed at supporting the overseas operations. We have provided as much internal protection as possible from the effects of budget freezes and Gramm-Rudman-Hollings cuts. But we are operating short-handed and stretching our people to the limit.

Question. Last year, Alex Good stated that US&FCS decided to establish a U.S. and Foreign Commercial Service Advisory Council. What is the status of this group? How does it operate? Is it working? Who are the members?

Answer. Plans to establish a private sector advisory council are well underway. The charter calls for roughly 30 members who will make recommendations to the Secretary on matters pertaining to US&FCS promotional activities. A number of highly qualified people have been asked to submit their applications for nomination. We're waiting for their names to clear security and are working to speed up this process. I'm confident that matters will be formally chosen soon and that they will begin to meet on a regular basis.

Question. Last year, Alex Good said that OMB was finalizing its clearance for a questionnaire to be given to American businesses to get their view of the US&FCS' services and activities. Has this questionnaire been distributed? If not, why not? If yes, what were the results? Please provide this subcommittee with a full report and evaluation of the results.

Answer. OMB gave us verbal approval for distribution of the questionnaire just last month. In anticipation of written approval, the printing request for the survey form is being prepared and submitted for clearance. The survey will be carried out during FY 1989 with an average of 12 district office areas (20 firms each) to be surveyed each quarter.

We expect to have tallied the results by the end of FY1989 and look forward to sharing them with the subcommittee as soon as they are incorporated in our report.

Question. Last year, Alex Good said that four district offices and six overseas posts might be reviewed and inspected by US&FCS itself. These would be separate from any audits or inspections by GAO, the Inspector General, or the State Department. How many inspections were carried out? What major problems, if any, did they find? What major recommendations did they make?

Answer. US&FCS conducted Management and Program Reviews (MPRs) of its posts in Bern, Switzerland; Zurich, Switzerland; and Vienna, Austria. Findings and recommendations at overseas posts covered a wide range of subjects, including trade promotion, program support, export control, staffing/personnel, financial management, security, and administration. The reviews did not reveal any problems that would be characterized as major; rather, they identified a total of 67 items which, when implemented, will result in significant management and program improvements. Recommendations included action items for both posts and offices in Washington. We are attaching a copy of the MPR's on Switzerland and Austria for your review.

In addition, we conducted a review of the Hot Tops pilot after it had been in operation for six months. The review indicated that Hot Tops showed promise but that improvements were needed. As a result, the pilot was fine-tuned and expanded from 10 to 24 countries. A follow-up review of the pilot, now that it has been operational for one year, is now under way. (HOT TOPS is a program designed to give special handling and follow-up to trade opportunities deemed by posts to be most promising or "hot.")

Question. I understand that when CIMS was first being implemented it was intended that the States would have access to the information. Now States are not included on the list of people who will ultimately receive the service. Why?

Answer. We still intend for the states to have access to CIMS information. We are not reviewing our user fee policies to determine the best manner in which to deliver CIMS to the states. A key issue is the pricing policy. We need to create a system that assures that all users of the information are charged the same fee for our services.

The Department is working with OMB to resolve this issue.

Question. How does Export Now differ from the programs offered by US&FCS?

Answer. Export Now is a Secretarial initiative that has elevated the importance and urgency of the need for small businesses to enter the export market. Through Export Now, we are involving vital sectors of government and business that had not previously participated in export promotion. As an example, government agencies such as the Department of Education and the Commission on Merchant Marine and Defense have joined with us to develop innovative approaches to specific problems facing small businesses in exporting, such as training and shipping. Major corporations in such diverse fields as insurance, electronics, and marine transportation are using the expertise of their respective industries to help small businesses master the mechanics of exporting.

Export Now also complements US&FCS programs. US&FCS is waging an all-out export awareness program utilizing promotional methods ranging from direct mail and articles in industry publications to speaking engagements and radio spots. Outstanding among these efforts was a cooperative supplement in the May 23 "Business Week". This article listed the do's and don'ts for executives who want to market their products overseas and described the many commerce department programs available to American business. Export Now is strengthening ties and increasing enthusiasm which will enable the US&FCS to do its job more effectively.

Question. Do you believe we can export our way out of our trade deficit?

Answer. Increased exports are a key part of bringing down the trade deficit. But we can't count on exports alone. If we can improve our competitiveness, we can convince more domestic consumers to substitute domestic-produced goods for imports. It is important not to underestimate the negative effects of large budget deficits and, relatively high real interest rates.

Question. Governor Baliles has said in matching import needs to U.S. companies' output "Virginia can do it better than US&FCS". With the states taking a much larger role in export development and promotion, do we need US&FCS?

Answer. Although Virginia and some other large states have overseas offices in a few key countries, their primary objective has been reverse investment. This in no way reduces the need for a world network of trade specialists capable of gathering commercial information and promoting U.S. products. We are the primary source of intelligence and counseling to small companies interested in selling their products overseas. We have found that states, rather than duplicating US&FCS services, are users of our services. We have established effective working relationships with the states and make every effort, through annual Federal/State Work Plans, to ensure that US&FCS and the states complement, rather than duplicate, each other's efforts. Yes, this country needs the US&FCS.

Question. Governor Baliles has complained that the Commerce information available is 1½ to 2 years old and is not helpful because it is not timely. Is this true?

Answer. In the past, some of our market research was dated. That's changing. We now plan to collect research more frequently, instead of all at once, late in the fiscal year.

When we began to implement the Commercial Information Management System (CIMS), we had on hand a significant quantity of market information dating from 1986 and 1987 that was not being widely distributed due to delays associated with the printing and distribution process. This information, converted to electronic form, is the basis for the initial CIMS database and we are adding to it daily. In addition, new 1988 market information will flow directly from overseas posts into the CIMS database. This information, once it is placed into the CIMS database is immediately available to U.S. firms through our District Offices.

Another area that we have been working to improve is the timeliness of our Foreign Trader's Index. Historically, this information was dated because there was no practical means of regularly updating and centralizing it. This information is of particular interest to the states, because it aggregates data by state. This particular data is not the highest priority for the Department, given the overwhelming need to get the best, most current market-opportunity data. However, we do hope to improve the timeliness of the Index.

Through CIMS, U.S. firms will have access to updated trade contract information from our major overseas posts within a matter of hours after its inclusion in the posts' local database. Transactions of this type are occurring regularly at 16 of our major posts.

Question. Governor Baliles has also noted that export and import information is necessary because U.S. companies need to know "What their competition is." Do you agree?

Answer. Import information can be very useful to U.S. companies, especially for assessing competition.

Our district offices have provided Bureau of Census import statistics to their clients for several years.

Competitive analyses, with industry- or product-specific data on foreign suppliers, market shares and U.S. competitive position, as well as domestic industry competition are included in each market research study we conduct. This information is available through CIMS.

CIMS' Foreign Traders Index also provides insights regarding local in-country competition for U.S. firms.

Question. Governor Baliles has suggested that more information needs to be available on "emerging markets" not just established markets. Does US&FCS have this information?

Answer. Increasingly, our contract research program is focusing on the markets of the Newly Industrialized Countries and developing countries. Recent studies have covered the People's Republic of China, Hong Kong, Korea, Singapore, Taiwan, Indonesia, Thailand, Malaysia, India, Saudi Arabia, Mexico, and Brazil. We have also done selected research on Turkey, Nigeria, New Zealand, Argentina, Colombia, and Venezuela.

To supplement this coverage, we receive best export prospect industry profiles from our commercial staffs in 64 countries.

We are also taking steps to work more closely with the Department of State in securing information on those markets where we do not have a US&FCS commercial office. The Foreign Traders' Index component of CIMS lacks data for many of these developing countries. To rectify this situation, we are working with the State Department to install CIMS at a number of overseas State Department sites. Within the next two years, coverage for developing countries should improve dramatically.

Question. "Export Now is a PR effort." What successes can you point to?

Answer. As of July trade data, overall exports have risen by 28 percent when compared to the same period a year ago. Since the onset of Export Now last February, the office has received more than 2,000 requests for exporting information and material. We estimate an average of an additional 400 requests at each of our 67 field offices. Since March over 2,500 telephone calls have been received by our 800 number requesting information. We have responded to over 600 requests for speakers at Export Now events and seminars. These speakers represent trade associations, business leaders and public sector representatives across the country. Over 20 Congressmen have sponsored (or will hold) Export Now events in their home districts as a result of briefings by Export Now and Congressional Affairs staff.

An active interagency group has started the process to coordinate the promotion of exports around the central theme of Export Now. Education training modules have been developed to initiate training of community economic development professionals in export programs available to their clients. Through the U.S. Chamber of Commerce and members of the private sector Export Now Advisory Committee, an American Export Foundation is being created which will serve as a private sector focal point for export expansion efforts.

These are just a sample of the successes of this awareness campaign. As new partnerships are formed, we expect many new private and public initiatives to develop which will complement the efforts of the Department of Commerce.

Senator ROCKEFELLER. Our panel consists of Mr. William Archey, Vice President, International Division, U.S. Chamber of Commerce, and Janice McEntee, who is the Washington Representative, California World Trade Commission, and the now-already legendary Donald Loso, who is the Regional Managing Director, United States Department of Commerce, out of St. Louis.

Folks, you are welcome to start. I suppose we had better start off with the legendary Mr. Loso, or Mr. Archey, do you want to go first?

STATEMENT OF WILLIAM ARCHEY, VICE PRESIDENT,
INTERNATIONAL DIVISION, U.S. CHAMBER OF COMMERCE

Mr. ARCHEY. Mr. Chairman, I am Bill Archey from the U.S. Chamber of Commerce. We were expecting to be on at 1:30, we did not know it was postponed, but I have an engagement that I cannot miss and I have to leave at 3:15.

Mr. LOSO. I would happily defer to Mr. Archey.

Senator ROCKEFELLER. Then please proceed.

Mr. ARCHEY. Mr. Chairman, I am Bill Archey, Vice President International of the U.S. Chamber of Commerce. I appreciate the opportunity to testify today. I have a prepared statement for the record, but I would like to give a brief synopsis of same.

First of all, I would like to make a comment that goes beyond that of export promotion. I think it is important to note, it has been alluded in earlier parts of the hearing, that export promotion is a subset of something I would call the whole issue of trade policy and international economic policy.

And in particular I would like to emphasize, because the Chamber feels very strongly about this, that some of the problems that we are going to note in my testimony regarding export promotion proceed from the fact that trade policy itself has not been a major priority of most administrations in the post-World War II era.

Trade policy has been taken for granted, and in fact has been what I would call a junior varsity issue in the priorities of the Executive branch. I think the new trade bill is a significant step in changing that, and in enhancing the importance and the role of trade policy within the priorities of the Executive branch. And I commend the Congress for having done that.

But I would note that in terms of export promotion itself we feel very strongly that it is a very important program, and it is a program that requires the collaboration of the Federal, state and private sectors.

And I would also note that in terms of overall promotion programs, some are good, some are bad, and some get very mixed reviews.

I would like to talk a little bit about the question that you raised a year ago, "where have we been in that period of time?"

I would say as a general rule that we are pleased with some of the developments that have occurred in the U.S. and Foreign Commercial Service over the past 12 months.

Although faced by declining financial and staff resources, they have tackled a much-increased work load, they have done more to lay the groundwork for a much more indepth quality export counseling program, and have expanded very much their interagency trade association export program.

I would also note that in some instances our American Chambers of Commerce abroad, of which there are 59, attest to the strong efforts of the foreign commercial service posts, despite the declining resources, to support many of their own efforts in the field.

But despite these marked improvements, we must remember that a year is a short time to improve export performance and national attitudes toward trade. We do not look for easy answers, and

we can at least claim that American producers are competitive again.

But we do think that there are some significant improvements that can be made, not just at the U.S. and Foreign Commercial Service, but across the board in terms of export promotion.

In my statement I focus on the three areas that we think need to be addressed by the U.S. and Foreign Commercial Services.

Namely, one, a strengthened and clear national commitment to export expansion, two, a concentration on programs of priority concern to business, particularly given resource constraints, and three, an improved coordination with other export promotion agencies and a much closer working relationship with business through the Business Advisory Council to the U.S. and Foreign Commercial Service.

You mentioned the business advisory council. You should know that the recommendation for that came from the U.S. Chamber of Commerce in an internal task force study about two or three years ago.

I just said to Allen as he walked out, I will be damned if I know why they need security clearances! But nonetheless, I will defer to the government on that issue.

But, you asked questions before about the overall budget issue. I would like to just quickly go over a little bit of that historically.

The Chamber of Commerce view is very simple. The U.S. government, and also the Congress, either have to be serious that we want a Federal export promotion program and are going to give them the resources to do it, or we ought to get out of the business, and we ought to find a way for private and state and local entities to do it.

Some of the reason for our strong feeling about that is we are looking at what has happened recently: a 20 percent decline in funding for the U.S. and Foreign Commercial Service between 1985 and 1988 as a result of either Gramm-Rudman or depreciation in the U.S. currency.

A 12 percent and 16 percent decline in the service's foreign positions and domestic staffing. Domestic staffing lost 57 positions between 1985 and 1988. Closing of at least five key export development offices abroad. Many of the remaining field offices are hamstrung because of the lack of basic budget support.

There also tends to be, and this is somewhat on the part of the Congress, a fragmented, diffused U.S. government involvement.

For example, in the recent trade bill, which we were pleased with because we think small business needed it, there is a new export promotion program in the Small Business Administration.

The question I am raising on that is, is this going to create even more confusion out in the field? Because you have got district offices that are supposed to be doing that, of the U.S. and Foreign Commercial Service.

So now there is a new program with people who have never had any experience in the field of export promotion; a whole new export promotion program with funding in the Small Business Administration.

We also have a problem in terms of the budget regarding the deferred completion of the Commercial Information Management

System. We agree with what Allen said in terms of other problems, but I think the budget problem was a serious one.

I would also like to note that when it comes to the kind of services that need to be provided, the United States Chamber of Commerce, about a year and a half ago, did a survey of 150 state and large urban Chambers of Commerce to find out who was providing what and what was needed in terms of export promotion services.

We found some very interesting results. The first goes to a point that you alluded to. We found out that a large number of local Chambers of Commerce and economic development councils had literally gotten out of the export promotion business entirely.

And that in many of the larger Chambers and economic development councils, their primary "export or international trade function" was to attract foreign investment into their locality. But there were few major Chambers that were any longer in the business of providing export promotion services.

Second, they were actually very high on a number of the programs offered, and the quality of the staff of the U.S. Commercial Service, but did note that the problem of resources were becoming more and more apparent.

Senator ROCKEFELLER. Let me just stop you there for a moment. Do you mean that they were satisfied with the help that they were getting from the U.S.?

Mr. ARCHEY. No, not necessarily.

Senator ROCKEFELLER. Why were they dropping these?

Mr. ARCHEY. I think they were saying that basically there was a greater bang for the buck to attract the foreign investment.

It was a much quicker turnaround. There was an acknowledgment, for example, that if you are going to provide export promotion programs, it sometimes is a long lead time before you start to see real fruition of those efforts.

Senator ROCKEFELLER. How does the Chamber of Commerce justify that philosophically? If one holds that exporting is the best way, if that is what the Chamber feels, to reduce the trade deficit?

Mr. ARCHEY. Well, I think that a number of them who were trying it were finding that it was very difficult to be successful and effective. I will explain why.

There were two things we asked: If you had only two things to do to provide for your local clients' businesses, in terms of getting them into the export business, what would they be?

The answer, was timely, real-time basic export sales information on specific countries and sectors. That was one.

Number two was export counseling, virtually hands-on counseling, to help the companies who have gotten this market information, to take them through the whole export process. And interestingly, were not interested—this was almost across the board, in all 150 Chambers—almost no interest in "how to" export seminars writ large or generically. But that was important for us.

Because one of the things we were trying to figure out was whether the U.S. Chamber of Commerce was going to mount a program—this was prior to "Export Now" getting off the ground—whether we were going to get into this notion of "how to" export seminars.

We concluded after the survey, that is not the way to go, because there was not a lot of interest in the general concept of exporting. But give them country-product specific information, and they wanted in-depth counseling; how do you get financing, how do you deal with letters of credit, how do you deal with foreign customs procedures.

All of those kinds of things at the nitty-gritty level, and also a certain hand-holding to get through some of the tension, and some of the anxiety of being first time to get in the export market. So we found that interesting.

I think that also——

Senator ROCKEFELLER. Let me interrupt you. Do you have any sense of what percentage of American businesses are engaged in exporting?

Mr. ARCHEY. I cannot say exactly. I am sure you have got the figure that the Commerce Department had in the 1986 number.

Senator ROCKEFELLER. I do not.

Mr. ARCHEY. The 1986 report stated that about two percent of all American companies were responsible for almost 80 percent of exports.

I saw something, I think it was in "Business Week" just a few months ago, that there is something like 10,000 to 20,000 fairly substantial companies who have never exported.

But it is a very small percentage. And in fact I know in 1985, 50 U.S. companies accounted for almost 30 percent, and 250 U.S. companies accounted for almost 70 percent of U.S. exports.

In fact, I am sure that if you took Boeing out of there in terms of exports, that figure would decline even more.

Senator ROCKEFELLER. Two hundred and fifty private companies responsible for how much?

Mr. ARCHEY. For almost 70 percent of U.S. exports.

Senator ROCKEFELLER. Seventy percent. That is interesting.

Mr. ARCHEY. Basically, in very quick fashion, I would like to say some things that we think the service should do. One, they have got to provide for more efficient and timely linkage between the foreign and domestic posts for generating action on specific trade leads. They have got to have those trade leads available quickly.

As Governor Baliles said, they had information that was a year, a year and a half old. That is not what exporters need, they need it on a real-time basis.

Second thing is that I think there is a greater need to have greater institutionalization, if you will, of the U.S. and Foreign Commercial Service. And what we are suggesting here, somewhat along the lines of the reorganization that took place in 1950 of the foreign service, is to have a single service, not have a domestic and foreign service.

I know one of the problems when I used to be at the Commerce Department was where to put the foreign commercial officers when they returned. Very talented people.

That is one of the problems. We think that if they had a single service where they rotated between domestic and foreign posts, I think they would become more competent, more aware of what the needs are, et cetera. And we think that is a very important way to go.

We think, three, that there is a real need to have this private advisory council program get off the ground. We think that the private sector is in fact very, very interested in seeing that program start.

It was an idea of my institution. We are pleased with that, and I think there are three things we would like to see happen with the advisory council.

One, channel feedback to the service from its private sector clients, two, recommend improvements in the service's programs, and three, provide the service with a source of guidance and assistance on request from the private sector.

We are not looking to be competitive, confrontational or anything else. We would really like to cooperate. We have had very good cooperation, particularly from our overseas American Chambers, with the foreign service commercial officers.

Senator ROCKEFELLER. And that interest in the council goes well beyond those companies who are already in the exporting business?

Mr. ARCHEY. Oh, yes. Absolutely.

Senator ROCKEFELLER. So there is a yearning out there?

Mr. ARCHEY. There is indeed. But it is also—I think the other thing is that in some instances there is so much out there that it is difficult for them to know which way to go in an informed way.

One other point that the Chamber strongly favors, whether export promotion be private or public, and that is a one-stop shop. I noticed that the US&FCS has now got an 800 number, where at least you can ask a question and be directed to the correct source.

We think a real case can be made for that kind of one-stop shopping where somebody does not have to go for one thing here, go to four other places for other things, but can go to one repository for that type of information. We think that is extremely important.

And there is another thing we feel very strongly about, even though within the private sector there are some people, as you know, Senator, who argue what the hell is the government doing in export promotion anyway?

But there is one thing we at the Chamber are very clear about, and that is you cannot replicate the resources both foreign and domestic that the U.S. and Foreign Commercial Service has, the network they have, and its access to a massive data base.

It is a question of taking that data and putting it into a usable format in a real-time way. That is a different story. But I do not think the private sector can compete with that kind of a network.

And last, I would just leave you on the note that Senator Danforth made, will business get the lead out? I would like to end with a quote, it is a very good observation of the current scene.

And it goes as follows, "We assume that we can send a salesman to Japan or China or South America on a trip as we would send him into Montana or Colorado. Never was there a greater fallacy.

"The credible representative of our industries in foreign markets must speak the language, know the customs, and live with the people if he expects to enjoy patronage in proportion to that given to other nations."

That was stated by Henry Wheeler, the first president of the U.S. Chamber of Commerce in 1912. So, plus change, as they say in France. And I think we are still dealing with those issues.

But I strongly believe that the American business community wants to see an effective promotion program, and we would like to be a part of it.

Senator ROCKEFELLER. I appreciate your testimony very, very much. I think it has been excellent. It has been interesting and useful. Three o'clock has come and gone.

So let me just thank you very much, Mr. Archey. That was crisp and very productive.

Mr. ARCHEY. Thank you, Senator.

[The statement follows:]

STATEMENT OF WILLIAM T. ARCHEY, VICE PRESIDENT—INTERNATIONAL, FOR THE U.S. CHAMBER OF COMMERCE

Mr. Chairman and members of the Subcommittee, I am William T. Archey—Vice President—International for the U.S. Chamber of Commerce, on whose behalf I am testifying today. I appreciate the Subcommittee's invitation to comment on the effectiveness of the U.S. and Foreign Commercial Service in meeting its mandate and on ways that the Service could better serve small business.

INTRODUCTION

As you know, export promotion programs are a much studied topic. Nevertheless, despite the attention that they generate, U.S. export promotion programs at all levels—federal, state and private—receive mixed reviews. Business has high praise for some programs, is skeptical of others, and is sometimes unaware that certain programs even exist. The general impression is that our export promotion efforts are not as productive as they could be. Paradoxically, this is a time when export opportunities are at an all-time high, thanks to more competitive U.S. industrial performance and the lower dollar. It is an ideal time to introduce more small business and non-exporting companies to this important arena.

At the same time, the call to expand U.S. exports is for more than a rhetorical reflex. We must bring the trade deficit down. If it is not reduced positively, through improvements in U.S. competitiveness and aggressive sales efforts in domestic and foreign markets, then adjustments will have to be made more painfully.

In this context, export expansion must be a more visible national priority. Export promotion programs have an important role to play if we are to achieve our full export potential, and the ability of the Service to carry out its responsibilities for export promotion has a definite bearing on our overall efforts to reduce the U.S. trade deficit. In particular, we commend the Administration for the "EXPORT NOW" initiative, which provides impetus, direction, and leadership to government of private export promotion efforts.

We believe that this campaign symbolizes the Commerce Department's strong commitment to developing the U.S. & F.C.S. into the most efficient instrument possible. However, the Service cannot do the job without resources. Congressional support is essential if the Service is to be equipped to play the practical export support role for which it was created.

Mr. Chairman, we recall how at last year's hearings you alerted the witnesses to be ready today to answer the questions, "How has the Service improved over the past year . . . and has it responded to the concerns expressed in 1987?" I shall keep these questions in mind in my statement today, with particular emphasis on the needs of small business.

As a general rule, we are pleased to report that there have been some very positive developments over the past twelve months. Although faced by declining financial and staff resources, at the same time the Service has tackled a much-increased work load. These additional demands on the Service have resulted from its own enhanced export awareness activities as well as from the healthier export climate created by improved industrial efficiency and the lower dollar. More specifically, the Service has laid the groundwork for a stronger system for in-depth, quality export counseling and has expanded its Interagency Trade Association Export Program. Reports from American Chambers of Commerce Abroad (AmChams) attest to the strong efforts of the Foreign Commercial Service posts, despite declining resources, to support U.S. export efforts in the field.

Despite these marked improvements in Service activities, we must remember that a year is a very short time in the effort to improve U.S. export performance and

national attitudes to trade. While we should look for no easy answers we can at least claim that American producers are competitive again. Moreover, we think that the private sector has a key role in fostering broad awareness domestically of the need to think in international terms if we are to stay competitive. Government's role is to recognize the interdependence of today's world economy and to act accordingly.

In my statement I shall focus on these three areas that need to be addressed if the Service is to fulfill its mission, particularly with respect to small business:

Strengthened and clear national commitment to export expansion;

Concentration on programs of priority concern to business, given resource constraints; and

Improved coordination with other export promotion agencies and a close working relationship with business through the Business Advisory Council to the Service.

NATIONAL GOVERNMENT COMMITMENT TO EXPORT PERFORMANCE

It is not possible to evaluate the effectiveness of the Service without some consideration of what the U.S. as a nation is willing to do to ensure its competitive position in world markets. Unfortunately, the record is clear that at the highest policy levels of the U.S. government, trade objectives have been at best a secondary concern.

At a time when the Service should be expanding its operations in support of U.S. export efforts, they have been cut. Specifically, a 20-percent decline in funding for the Service between 1985 and 1988, when Gramm-Rudman-Hollings budget cuts and the dollar's depreciation are factored in. In actual dollar figures, the 1988 budget of \$69.5 million is down from the 1985 figure of \$72.4 million.

A 12 percent and 16-percent decline in the Service's foreign (20 positions) and domestic staffing (57 positions), respectively, between 1985 and 1988.

Closings of key Export Development Offices in Milan, Sao Paulo, Sydney, Singapore, and Bonn.

Many remaining field offices are hamstrung due to the lack of basic budget support.—Reports from AmChams describe situations in which the effectiveness of individual Foreign Commercial Posts has been severely curtailed due to lack of funds for field travel, long distance telephone calls, and even postage stamps, for instance.

Inconsistent and unfocused U.S. government involvement.—Government support for exporters is fragmented between many agencies and departments. Export promotion programs alone are divided between the Departments of Commerce, State and Agriculture, as well as the Small Business Administration. The principal U.S. export financing organization, the Export-Import Bank, is being strapped for administrative support at the very time that it is attempting to establish a much-needed field office network and an outreach system for small business.

Deferred completion of the Commercial Information Management System.—This system would place all domestic and foreign posts into a worldwide computer network, accessing the most detailed data bases and speeding up the transmission of relevant market intelligence. While completion is being delayed primarily because of funding shortfalls, there is a perception among AmChams that more top-management attention within the Service would help to move it forward.

Comparative studies with the export promotion programs of other countries place the U.S. effort at or close to the bottom in virtually all categories. Specifically, the U.S., when compared to Canada, Belgium, France, Germany, Italy, Sweden, and the United Kingdom, was:

Last in export promotion spending per capita (\$1.20 per person compared to Canada's \$21.44, Sweden's \$8.72, and France's \$6.19);

Last in promotion spending related to total Gross National and Domestic Product (\$0.06 per \$1,000 of U.S. Gross National Product compared to Germany's \$0.11, Italy's \$.29, France's \$.47, and Canada's \$1.48);

Last in promotion spending related to total government spending (\$0.29 per \$1,000 of total government spending compared to the U.K.'s \$1.43, Sweden's \$1.65, Italy's \$2.00, and Canada's \$6.02); and

Sixth out of eight in total export promotion staff related to exports (8.3 persons per billion dollars of U.S. exports compared to the U.K.'s 16.5, France's 16.3, and Canada's 28.1).

While there is no question of the Department of Commerce's commitment to export promotion, from the top down, clearly, the overall U.S. commitment to export promotion needs urgent reappraisal. As to the specific needs of the Service, if the government is unwilling to commit the necessary resources, then it will not be possible for the Service to perform those essential export support functions that is

uniquely qualified to provide. I refer here in particular to the network of foreign posts and their linkage to the network of domestic offices. Their collective access to the huge data resources of the federal government represent a hard core of export support capability that nonfederal sources would find impossible to match.

Fortunately, there are encouraging signs within the Executive branch and Congress that prevailing national priorities need major readjustment. Most notably, the massive overhaul of U.S. trade law in the Omnibus Trade and Competitiveness Act demonstrated that Congress is willing to match words to action.

As I stated in the introduction to the recently published Chamber Guide to the Trade Act: "The 1988 Act recognizes, explicitly and implicitly, the interdependence of the world economy and the need to change policies to reflect that reality."

For an Administration viewpoint, let me quote also from testimony by John A. Bohn, Chairman and President of the Export-Import Bank, before the House Committee on Banking, Finance, and Urban Affairs. In commenting on the scale and effect of foreign government involvement in export markets, Mr. Bohn stated:

"A reexamination of some national priorities is long overdue * * * can we, for example, afford to ignore the extent of government support in international competition? Is there, in fact, a limit on our capacity to be benevolent?"

"Some means must be found to insert to a much greater extent than in the past, international economic and financial considerations into the security policy of this nation."

The Chamber endorses the thrust of Mr. Bohn's remarks and can only add that they apply equally to the need to view export promotion as an integral part of the nation's policy apparatus.

CONCENTRATION ON PROGRAMS OF PRIORITY CONCERN TO BUSINESS

While the Service is an improvement over the previous arrangement, in many important respects, business has been disappointed with the range and quality of services provided. The Chamber routinely surveys local and state chambers of commerce and AmChams for their views on the Service. While many of the suggestions and comments received are anecdotal, certain consistent impressions emerge that provide a basis for constructive action.

The basic thrust of the comments is that the Service should focus on those programs it can do best and devolve other programs to the expanding network of state and local promotion agencies. The Service should have adequate staffing of foreign commercial posts of priority concern to U.S. business. Domestically, the Service should provide first-class market intelligence and in-depth "how-to-do-it" export counseling to U.S. businesses that are new to exporting.

More specifically, the Service should: Provide for more efficient and timely linkage between foreign and domestic posts for generating action on specific trade leads.

For example, the Executive Director of the AmCham in South Korea recently reported to us the difficulties encountered in trying to expedite Service action on a "shopping list" of Korean export opportunities generated by the AmCham. The problem concerned the excessive time required to get viable trade leads into the hands of interested U.S. exporters. Possible solutions might require some rearrangement of the Service's present organization, with functions split between foreign and domestic operations. One option here would be to combine the domestic and foreign arms of the Service into a single service, with assignments rotating regularly between foreign and domestic posts. This would be similar to the Wriston reforms of the late 1950's, which removed divisions in the old Foreign Service with a subsequent boost to effectiveness and morale.

Realistically implement the Full Cost Recovery Program.—Business has no problem with paying for useful services and materials provided by the Service. But let us be realistic. The Service staff is being reduced at a time when their workload is increasing. In addition, when they have to apply user fees in every minute instance, their overall effectiveness and responsiveness, especially to small business inquiries, is severely inhibited.

Institutionalize the government's experience in export promotion activities.—There is a lack of long-term consistency and stability in many key programs. The style and substance of federal programs under one administration can be altered or eliminated by successors in the same way that state programs may be changed by new governors or legislatures. This means that when effective programs are developed, there is no guarantee that they will remain in place. Nevertheless, while individual programs come and go, over time lessons can be drawn as to the most effective underlying elements and principles. Accordingly, representation by qualified career personnel in the senior management levels of the Service allows this experi-

ence to be captured and built upon. The Service is to be commended for observing this principle in its current establishment, and we hope that it will be expanded.

Provide one-stop shopping for exporters.—In seeking support and assistance from export promotion programs, a common business complaint concerns the lack of "one-stop" shopping. With due allowance for unrealistic expectations in this area, it is clear that there are wide variations in the quality and timeliness of assistance between different locations. The Service is to be commended for recently initiating a new "800 number" system to deal with this problem.

However, this system applies only to Commerce Department programs; so from the perspective of individual exporters, the problem of understanding the total range of available services remains. The Service's programs cannot be viewed in a vacuum, independent of the export promotion services provided by other federal agencies and by the growing network of state and local government and private organizations. The quality of support available to American exporters depends upon the total effectiveness of all the various export promotion programs that are available. Unfortunately, there is a lack of cohesion between the different programs. While total funding devoted to all forms of U.S. export promotion approached \$300 million in 1987, there is no central coordination point to direct these resources to their most efficient use.

Improved Coordination with Other Export Promotion Agencies and a Closer Working Relationship with Business through the Business Advisory Council to the Service.—Current and likely future resource limitations make it imperative that the Service tap private and nonfederal governmental interests to extend its outreach to exporters. Funds and staff are not likely to be available to the Service in future years to perform fully its traditional function. Yet with concerted action, the Service could mobilize a substantial body of resources that could substitute for and expand on Service resources to serve current and new exporters.

The problem is how other agencies and the business sector can establish a cooperative and non-confrontational relationship with the Service that would facilitate such action. That is the major reason why, in the Chamber's 1985 Report on the Service, we advocated the establishment of a permanent business advisory group. By serving as a form of quality control over the mass of suggestions that emanates from the private sector, the advisory group would focus these recommendations and provide a mechanism for the follow-through that is lacking at present. We were very pleased at the government's decision to proceed with the organization of an advisory group, which was first announced at these hearings last year. The Business Advisory Council to the Service is expected to convene its first meeting in the near future.

The newly created Advisory Council to the Service will provide the Service with support and assistance in three major areas:

- To channel feedback to the Service from its private-sector clients.

- To recommend improvements in the Service's programs.

- To provide the Service with a source of guidance and assistance on request.

While the Advisory Council should provide a practical channel for adapting Service programs to business needs, the problem still remains of introducing some sense of order and cohesion to the great mass of export promotion activity at the state and local levels, in both the public and private sectors. It is one thing to fine-tune the operations of the Service; it is quite another to deal with the deficiencies and duplications that exist at the state and local levels. The chamber has appointed a working group to address this problem, and in a very preliminary sense I would like to indicate some tentative findings. Essentially, it sees the need for a private-sector structure that would serve as:

- A clearinghouse for information on services and printed material (both public and private) to assist exporters. There is currently no recognized repository or magnet for this information. Many initiatives and programs that are working successfully in particular regions of the country are unknown or less effectively managed in other parts of the country. The unit would disseminate the strategies that work and identify gaps in programs and information designed to help U.S. companies export.

- A forum where new proposals to assist exporters can be presented. The unit could also advise if the proposal already exists in some form, to avoid the duplication of effort that frequently occurs. The organization would be well qualified to solicit feedback from small businesses on their needs and to determine if new proposals would fill those needs.

- An educational and applied research center to provide ongoing analysis of various public and private services and to evaluate ways to strengthen linkages and increase the efficiency of the various export promotion programs in the U.S.

Further, the Service must achieve extremely close integration of its foreign and domestic staffs and have the resources necessary to provide exporters with timely and country-specific market intelligence and field support. To that end, it is essential that the Service have all the necessary prestige and status in the various embassies to assure effective and aggressive export promotion.

This is the bare outline of the export promotion functions, mostly of coordination and liaison, that we believe must be addressed in a more cohesive fashion. They may or may not require a special organization, but at this stage we are convinced that there is very wide agreement throughout the U.S. exporting community on the need for more cohesion and communication among existing export promotion agencies.

CONCLUSION

The Service remains the core of the national export promotion effort. However, it must contend with the likelihood of declining funding at a time when the need for maximum U.S. export performance is imperative. The Chamber believes that sufficient funding should be made available to enable the Service to restore effective support in key domestic and foreign posts that are currently closed or understaffed and to play an effective role in the larger task of enhancing the overall U.S. export effort. If national commitment is lacking and resources are not made available, it will be impossible for other export promotion agencies, in the public and private sectors, to take up all the slack.

Finally, in order to use its scarce resources most effectively and to serve small businesses, it is essential that the Service tap private and nonfederal governmental resources and interests as never before at two levels. At the national level, we urge the Service to use the new Business Advisory Council extensively so that business needs and priorities are truly incorporated into Service operations. And in the export counseling function so critical to small companies and all exporters facing changed global trade conditions, the Service should create a new partnership effort to make specific export opportunities and techniques more fully known to individual companies.

I appreciate this opportunity to discuss with you some of the ways that the Service can be used to maximum effect. I would be pleased to respond to any questions that you may have.

Senator ROCKEFELLER. Ms. McEntee, may I turn to you now?

STATEMENT OF JANICE McENTEE, WASHINGTON REPRESENTATIVE, CALIFORNIA WORLD TRADE COMMISSION

Ms. McENTEE. Certainly. Mr. Chairman, my name is Janice McEntee. I am the Washington Representative for the California World Trade Commission.

I appreciate this opportunity to testify today on the effectiveness of the U.S. and Foreign Commercial Service in promoting U.S. exports.

The California World Trade Commission, established in 1983, is the unit—

Senator ROCKEFELLER. Can you pull the mike up closer? It is fairly close already, but you have a soft voice. And it is necessary for you to get close to it.

Ms. McENTEE. Is that better?

Senator ROCKEFELLER. Yes.

Ms. McENTEE. The California World Trade Commission is the unit of the governor's office responsible for helping to increase exports and sharpen the competitiveness of California business.

An alliance of the state's business leaders and top government officials, the Commission focuses on three major program areas. Export development, export finance, and trade policy development and research.

The Commission designed its programs to fit specific needs within our business community, needs that were not being met by Federal or private programs. As a result, scarce state resources are spent on activities which complement rather than duplicate the services of the Federal government, especially the US&FCS.

The Commission has a total staff size of 24, and spends about \$2.5 million annually on its programs. The state looks to the Federal government to provide the general export promotion services to its business community. The district offices' how-to-export and export licensing seminars, individual counseling services, and general marketing information provide the basic educational framework for new-to-export and new-to-market companies. Supplying the basics is central to the effort to enlist more companies in the ranks of exporters.

The district offices are or should be a company's first stop when considering exporting. The district offices are also the critical link between the foreign post-generated market intelligence and the companies who can turn this information into exports.

Our major concern is that the U.S. and Foreign Commercial Service is being rendered ineffective through continual budget cuts, lack of proper staff and resource allocation, and the diffusion of trade promotion funding to other agencies.

As a result of these cuts, the district offices are increasingly unable to fulfill their current mandate, much less handle the increased demand for their services created by the overall trade expansion opportunities.

Staff shortages in key regions of high export growth potential could be solved through better allocation of staff nationwide.

The requirements of each region and district should be reviewed on a regular basis and reassignments made to the offices with the greatest need. This would facilitate a more efficient use of resources without requiring additional staff.

As we just heard from Mr. Moore from Commerce, the staffing and resource shortages in the foreign commercial offices are largely due to the dollar's depreciation and the higher cost of maintaining overseas posts. Funds are constantly being shifted from the domestic to the foreign offices to cover these increased costs.

If this were a new situation, reprogramming the funds would be understandable. But the dollar has been depreciating for several years and should be accounted for by now.

We are concerned that the ongoing transfer of funds from domestic to foreign operations is an indication of a larger policy agenda. For several years, Commerce, at the urging of the Office of Management and Budget, has considered various options to transfer its domestic export promotion activities to the states or to private groups.

Although a recent proposal was dropped after it was widely opposed by both the states and the private sector, we expect the concept to resurface as Commerce and OMB look for ways to reduce the Federal budget deficit.

Promoting exports should be a national priority, with the states and the private sector adding value where possible. Especially at this time of expanded opportunity, the Federal government should make export promotion a top priority.

Instead it is sending mixed signals to our business community. On the one hand, the President and the Secretary of Commerce have placed great emphasis on "Export Now" to urge new companies to plunge into the international marketplace.

On the other hand, the U.S. and Foreign Commercial Service, which is mandated to help these new companies figure out how to export, is being cut. "Export Now" cannot fully succeed unless the U.S. and Foreign Commercial Service is given the resources necessary to translate new interest into new exports.

Unfortunately, Congress is contributing to the problem by creating duplicate structures within the Federal government to promote exports; this is the problem with the Small Business Administration receiving significant new funding to engage in an activity that they basically do not know anything about.

Over the last year, SBA has held a series of seminars across the country to encourage small business to export. While these promotional efforts are appreciated, what usually happens is at the end of the seminars companies that show interest are then referred to the district commerce offices for further help.

Given our severe budget constraints, we cannot afford to support multiple efforts to accomplish a single goal. It would be more effective to concentrate funding in the agency that has both the knowledge and the network to promote exports.

If I can summarize the major recommendations that we have to improve this program, trade development must be made a higher national priority. This can be accomplished by combining the funding currently being given to various agencies and allocating it to the U.S. and Foreign Commercial Service.

Maintain a balanced and adequately-staffed U.S. and Foreign Commercial Service. The domestic and foreign components are interdependent and must be maintained in order to deliver the market intelligence from the field to the companies who can act on the information. Staffing allocation should be based on need, not attrition.

Lastly, we urge the U.S. and Foreign Commercial Service to coordinate with state governments and the private sector to increase the effectiveness and avoid duplication of programs.

One example of a recommendation here is to make the CIMS system, which you have mentioned, available to the state trade development offices. This was originally envisioned in the CIMS implementation plan and was recently dropped. We do not know why, other than the pricing problem that was mentioned.

As you consider these and other recommendations, we urge you to focus on ways to improve the current structure rather than considering yet another reorganization. We believe that the U.S. and Foreign Commercial Service provides a solid framework for an effective trade development program, and should be strengthened so it can fulfill its mandate.

We appreciate this opportunity to testify and look forward to working with you on this important issue. Thank you, Mr. Chairman.

[The statement and questions and answers follow:]

STATEMENT OF THE CALIFORNIA WORLD TRADE COMMISSION

Mr. Chairman, Members of the Committee: My name is Janice McEntee and I am the Washington Representative for the California World Trade Commission. I appreciate this opportunity to testify on the effectiveness of the U.S. & Foreign Commercial Service in Promoting U.S. exports. U.S. & F.C.S. programs have an impact on California's overall trade position and especially on our export promotion and trade finance programs.

By way of background for the Committee, I will outline the state's trade promotion activities and discuss our interrelationship with the federal programs.

The California World Trade Commission, established in 1983, is the unit of the Governor's Office responsible for helping to increase exports and sharpen the competitiveness of California business. An alliance of the state's business leaders and top government officials, the Commission focuses on three major program areas—export development, export finance, and trade policy development and research.

The Office of Export Development facilitates participation by small and medium, new-to-market, and new-to-export California companies in the world's leading trade shows through sponsorship of California exhibit booths. Given the high cost of attending trade shows for individual companies, the World Trade Commission has developed a trade show program to provide opportunities for small and medium-sized firms to attend shows at a greatly reduced cost through shared exhibit space, shared interpreters, pre-arranged travel, and freight consolidation. The Commission makes all the logistical arrangements and provides a trade specialist to assist each company with pre-show marketing and on-site support. Each year, the Export Development Office takes over 200 small and medium-sized firms to new markets.

The California Export Finance Office (CEFO) provides loan guarantees to help small and medium-sized exporters get the financing they need to complete an export transaction. This program is especially critical at a time when commercial banks are reluctant to provide working capital financing for smaller transactions. CEFO places more value on softer collateral such as inventory, accounts receivable, and personal guarantees, as opposed to the banks' emphasis on the balance sheet. CEFO can guarantee up to 85 percent of a qualified loan for as long as 360 days. The maximum guarantee of \$350,000 can support an export sale worth millions of dollars; the product or service supported must have at least 50 percent California content. A firm order is required, together with either foreign credit insurance, a federal guarantee, or a letter of credit.

CEFO backs only transactions that would not otherwise receive support from a commercial bank. CEFO staff must be satisfied that the transaction is credit-worthy, that it is backed by appropriate capital, and that the exporter can fulfill all its obligations under the sales contract. CEFO works closely with the Export-Import Bank, the Foreign Credit Insurance Association, and the Small Business Administration (SBA) to expand its coverage through cooperative agreements. Since the program began in August 1985, CEFO has supported nearly \$100 million in export sales, with an employment impact of approximately 2500 jobs.

CEFO does not subsidize loan rates to the exporter. Quite the contrary, CEFO charges an application fee and a guarantee fee (usually one per cent of total funds guaranteed). These fees, combined with the interest earned on the \$4 million revolving fund, should make the program self-supporting within two years. The success of CEFO will result not only in increasing exports and jobs for California, but also in eliminating the cost to the state treasury of running the program.

The Commission is also responsible for the state's trade policy development and research activities. As the Washington Representative, I work closely with Congress and the Administration to shape legislation and policy which promote California's international business interests. The Commission took an active role in the debate over the trade bill and will continue to work on its implementation. The Commission also produces studies which identify emerging opportunities for trade expansion and catalogue barriers encountered by California companies in accessing foreign markets. Recent studies have included the impact of the U.S.-Canada Free Trade Agreement on California and a guide for California business to the Uruguay Round of GATT negotiations. In the coming year, we plan to publish a study detailing the impact on the state's business community of the European Community's efforts to create an internal market by 1992.

During the course of carrying out these three major activities, the World Trade Commission staff has regular contact with U.S. & Foreign Commercial Service offices in California and overseas. We also hear frequently from the District Export Councils, other California business leaders and our own Commissioners who are concerned about the effectiveness of the U.S. & F.C.S. I would like to share with the

Committee our observations regarding the interrelationship of the state and federal export promotion programs and our specific concerns regarding the future of the U.S. & Foreign Commercial Service.

In recent years, states have more fully recognized the positive impact international trade can have on economic development and job creation. Accordingly, states have placed a higher priority on trade expansion and increased the level of resources available for state export development programs. The California World Trade Commission, as it evolved, identified specific needs within our business community—needs that were not being met by federal or private programs. With the direct participation of the private sector, we designed programs to address those needs. As a result, scarce state resources are spent on activities which complement, rather than duplicate, the services of the federal government, specifically the U.S. & F.C.S. Our trade promotion group provides specialized services to companies with high export potential, focusing on California's most vital industries and most important markets. And, as detailed above, CEFO was designed to fill a particular need in the California financial marketplace. The Commission has a total staff size of 24 and spends about \$2.5 million annually on its programs.

The state looks to the federal government to provide general export promotion services to the business community. The district offices' how-to-export seminars, individual counseling services, and general marketing information provide the basic educational framework for new-to-export and new-to-market companies. Supplying the basics is critical to the effort to enlist more companies in the ranks of exporters. The district offices are—or should be—a company's first stop when considering exporting. The services provided to experienced exporters are also important; updated market research, new trade opportunities, and identifying agents and distributors are rated highly by California firms. The district offices are the critical link between this foreign service-generated information and the companies who can turn this information into exports.

The district offices refer companies to the World Trade Commission when they believe those companies might benefit from our specialized programs. Also, companies who participate in our trade shows often go back to the district offices for further assistance in following up on leads from up at a show. Similarly, the Commission receives calls from companies looking for basic export assistance or market research information. We refer many of these calls to the district offices whose staff is better equipped to handle these inquiries. The maintenance of this synergistic relationship is vital to the continued growth of California exports.

Our major concern is that the U.S. & Foreign Commercial Service is being rendered ineffective through continual budget cuts, lack of proper staff and resource allocation, and the diffusion of trade promotion funding to other agencies. The impact of the decline in staffing levels and resources in the district offices is quite apparent in California. Currently, these offices are severely understaffed and, as the offices lose people due to retirement and normal turnover, they are seldom able to replace them. The San Francisco office should have 19 people but has only 12; Los Angeles is budgeted for 16 but has 11. As a result of these shortages the office directors and trade specialists are answering phones, typing letters and staffing libraries on a rotational basis instead of providing more export counseling and expanding their community outreach. As a result, the district offices are unable to fulfill their current mandate, much less handle the increased demand for their services created by the overall expansion in export opportunities. Staff shortages in key areas of high export growth potential could be solved through better allocation of staff nationwide. The requirements of each region and district should be reviewed on a regular basis and reassignments of staff made to offices with the greatest need. This would facilitate a more efficient use of existing resources without requiring additional staff.

The new Commercial Information Management System, which claims to "put the world at your fingertips", is still a long way from fulfilling its promise. Some offices lack the proper equipment to use CIMS, while others complain about lack of content and the long hours involved in accessing the system. The information, especially trade opportunities and competitive market analysis, is only valuable if it is made available in a timely fashion and at a reasonable cost. The CIMS implementation plan originally called for making the system available to state trade development agencies. This was a very popular proposal but, for reasons unknown, was recently dropped. California would certainly be willing to participate in the implementation pilot to test the concept of expanding availability to CIMS. This might help alleviate the burden on the already scarce staff resources.

The critical staffing and resource situation in the district offices is having a negative impact on the state's programs. Our staff is increasingly called upon to provide

export counseling and basic assistance, which we are not as well-equipped to handle. As demand for the services traditionally supplied by the district offices increase, our own ability to provide our specialized services will erode. We are also hearing from the business community that the staffing problems in the district offices are resulting in an overall decline in the quality and timeliness of the services provided to companies of all sizes.

Staffing and resource shortages are also having a major impact on the Foreign Commercial Service. We have heard from the business community that staffing cutbacks are affecting the ability of the overseas posts to provide key support services to American firms. Staffing shortages, compounded by other factors including frequent rotation and limits on regional travel and long-distance phone calls, are resulting in the decline in the effectiveness of the Foreign Commercial Service.

The F.C.S., as currently structured, is unable to compete with the institutional support provided by other countries. France, Germany and Japan, for example, all provide official support for their companies' efforts to obtain major foreign contracts. There is a commitment from the head of state on down to the local foreign commercial officer to help their firms expand their business overseas. We should examine ways to improve our approach to obtaining business—improvements which could be made through changes in attitudes and policy, not increases in budget.

According to sources within Commerce, the problems in the F.C.S. are largely due to the dollar's depreciation and the higher cost of maintaining the overseas posts. Funds are constantly being shifted from the domestic to the foreign offices to cover the increased costs. If this were a new situation, reprogramming of funds on a short-term basis would be understandable. But the dollar has been depreciating for several years and should have been accounted for by now.

We are very concerned that the continuing transfer of funds from domestic to foreign operations is an indication of a larger policy agenda. For several years, Commerce, at the urging of the Office of Management and Budget, has considered various options to transfer its domestic responsibilities for export promotion to the states or private groups. Earlier this year, another proposal was made to transfer trade promotion responsibilities from Commerce to a few states on a trial basis with partial funding. This plan would have phased out district offices and federal funding over five years. Although the proposal was dropped after it was widely opposed by both states and the private sector, we expect it to resurface as Commerce and OMB look for ways to reduce the federal budget deficit. Most recently, the Inspector General's office conducted a field survey looking at the district office structure and possible alternatives. We are very interested in hearing the results of that survey.

While it is true that the states are making significant investments at home and abroad to promote exports, we are not looking to duplicate or assume the U.S. & F.C.S. responsibilities. Each state concentrates on ways to promote trade and attract investment to improve its own economy. From a budgetary standpoint, the states are in no position to take on the full burden of expanding exports. From an organizational standpoint, it would be difficult to create a cohesive structure of all the states. The domestic network of offices is the only direct link both to Washington and the overseas offices. The Commerce Department generates a vast amount of information relating to market research and trade opportunities. Without a domestic network of trade specialists to help disseminate the information to local companies and assist them in special inquiries, the value of that foreign network would be greatly diminished.

The ability of U.S. firms to compete abroad is determined by a whole set of economic and political factors beyond the states' control—the U.S. federal budget deficit, exchange rates, foreign policy considerations, bilateral and multilateral trade agreements, to mention a few. Promoting exports should be a national priority, with the states and the private sector adding value where possible. Especially at this critical time, when U.S. exports are more price-competitive due to the low dollar, the federal government should make export promotion a top priority.

Instead, it is sending mixed signals to the business community. On the one hand, the President and the Secretary of Commerce have placed great emphasis on a new promotional program, called "Export Now," to urge companies to plunge into the international marketplace. On the other hand, the offices which are mandated to help all these new companies successfully handle the challenges of selling their products overseas are being rendered ineffective because of diminished resources. "Export Now" cannot succeed unless the U.S. and Foreign Commercial Service is given the resources necessary to translate interest into action.

Unfortunately, Congress is contributing to the problem by creating duplicate structures within the federal government to promote exports. In recent years, international trade has become a very popular activity. Other agencies, notably the

Small Business Administration, have received funding to get involved with trade promotion. In the past year, the SBA has held a series of seminars across the country to encourage small business to export. While these promotional efforts are appreciated, the SBA does not have the expertise to advise small business on this subject. Companies attending these seminars often end up in the Commerce district offices looking for help, at the SBA's referral. Commerce has always placed major emphasis on helping small and medium sized business. Given our severe budget constraints, we cannot afford to support multiple efforts to accomplish a single goal. It would be more effective to concentrate funding in the agency that has both the knowledge and the network to promote exports.

As the nation's leading exporting state, we are very aware of the positive impact international trade can have on the state's economy. We are very concerned that short-term budget considerations may have a serious detrimental impact on U.S. ability to increase exports. We recognize that Congress must consider many national priorities and somehow balance the demands for scarce budget resources. Trade promotion is one program that offers a solid return on our investment in real economic growth and increased employment. The challenge that we face together is to identify the most critical activities and support these adequately, while eliminating less effective programs.

To summarize our major recommendations:

Trade development must be made a higher national priority. This can be accomplished by combining the funding currently being given to various agencies and allocating it to the U.S. & Foreign Commercial Services.

Maintain a balanced and adequately staffed U.S. & F.C.S. The domestic and foreign components are interdependent and must be maintained in order to deliver the market intelligence from the field to the companies who will act on the information. Staffing allocations should be made based on need, not attrition.

Coordinate with state governments and the private sector to increase effectiveness and avoid duplication of programs. One example is to make CIMS available to state trade development offices.

As you consider these and other recommendations, we urge you to focus on ways to improve the current structure rather than considering yet another reorganization. In recent years, the Department of Commerce has undergone numerous reorganizations, making it difficult for both business and the states to develop strong coordination and cooperation with the federal government. We believe that the U.S. & Foreign Commercial Service provides a solid framework for an effective trade development program and should be strengthened so that it can fulfill its mandate.

The California World Trade Commission thanks the Committee for the opportunity to testify on this issue; we look forward to working with you to identify ways to improve U.S. export development efforts.

CALIFORNIA STATE WORLD TRADE COMMISSION,
November 4, 1988.

HON. JOHN D. ROCKEFELLER IV,
Chairman, Subcommittee on Foreign Commerce and Tourism, U.S. Senate, Washington, DC.

DEAR SENATOR ROCKEFELLER: I appreciate the opportunity to share some additional thoughts on behalf of the California World Trade Commission regarding the U.S. and Foreign Commercial Service. Please find attached the responses to your additional questions.

I apologize for the delay in providing this information. The extended Congressional session complicated my schedule longer than expected.

The California World Trade Commission looks forward to working with you in the 101st Congress to strengthen export development programs for small and medium sized business.

Sincerely,

JANICE COOPER MCENTEE,
Washington Representative.

Enclosure.

Answer 1. The recently-enacted Omnibus Trade Bill certainly pays attention to the needs of small and medium sized businesses trying to export. The Commission has concerns, however, about the intent and direction of certain provisions. In export promotion, we believe that the federal government should focus its funding on the agency with both the expertise and world wide network to provide export assistance. The increased funding provided to the Small Business Administration for

export promotion activities, for example, would be better spent improving the U.S. and Foreign Commercial Service. Also, we would prefer to see adequate funding provided to export promotion programs with a proven track record, such as the Agent and Distributor Service, before new activities such as the market development cooperator program are implemented.

Answer 2. The Commission's studies, which focus on emerging opportunities for California companies, draw on a wide range of resources. Our study on the impact of the U.S.-Canada Free Trade Agreement on California, for example, summarizes the provisions of the FTA and identifies its potential impact on California's economy by sector. Detailed statistics regarding trade between Canada and California used in that study were not available from the Department of Commerce; we relied on the Canadian government for that key information. A complete list of the Commission's publications is attached for your information.

Answer 3. Need can be determined in a number of ways: local demand for Commerce services, number of companies with high potential for exporting, and availability of services from other sources (both public and private). The point we were trying to make in our testimony is that attrition should not determine staffing levels. You raise a very good point about the equitable distribution of resources between small and large states, but if the district offices' budget continues to shrink, it will be necessary to focus the resources in areas with the highest export potential.

Answer 4. As a first step, state trade development offices could serve as another delivery mechanism to potential exporters, increasing access to the marketing information collected by Commerce. We would urge that CIMS be made generally available online to the private sector through a public network. The major problem with CIMS is that it is not now easily accessible to exporters through the district offices due to incompatible hardware and/or lack of available and trained staff to access the system. Also, since CIMS is the forerunner of the national trade data bank to be developed within two years in consultation with the states and private sector, our input could be more constructive if we gain access to CIMS now.

Answers 5, 6. The Commission supports strong federal-state cooperation to provide effective trade development and trade finance programs. In this era of budget constraints, the best way to accomplish this goal is to concentrate federal funding in one agency and make the most efficient use of available resources. In general, we believe that the federal government should provide basic business counseling and market intelligence while states should design specialized services to fill the gaps (like the California Export Finance Office). Dismantling the worldwide network of domestic and foreign offices would disrupt the valuable mechanism by which the marketing intelligence is gathered and distributed.

In some states, co-location of federal and state trade promotion offices makes sense. In other states, especially where state capitals and business centers are in different cities, co-location may not be possible. The district and foreign offices should be given greater flexibility in determining what programs and services are most suitable for individual areas. Local control of operations would result in resources being devoted to activities truly needed, rather than misspent on low-yielding efforts.

Senator ROCKEFELLER. Thank you very much, Ms. McEntee. What I might do is, rather than question you at this point, perhaps Mr. Loso could give his testimony, then I could ask some questions of each of you. Incidentally, thank you both very much for being here.

STATEMENT OF DONALD R. LOSO, REGIONAL MANAGING DIRECTOR, DEPARTMENT OF COMMERCE

Mr. Loso. Thank you, Mr. Chairman. I am pleased also to have this opportunity to discuss the trade facilitation activities of the U.S. and Foreign Commercial Service of the U.S. Department of Commerce, and specifically how our field operations relate to those of individual states.

US&FCS district offices across this country blend a strong belief in entrepreneurial initiatives with sound public management principles, in order to improve the ability of U.S. business to compete in international markets.

Congress created the U.S. and Foreign Commercial Service with the intent of producing an integrated export development system which would be responsive to the needs of the U.S. business community and sensitive to the unique considerations of states and regions of this country.

Given our resource constraints, I believe we have succeeded admirably in meeting the Congressional intent for the U.S. and Foreign Commercial Service.

We can, however, do a better job in targeting our international marketing efforts, on both an industry and country basis.

You have heard testimony which details the mandate of the US&FCS and its uniqueness as a Federal government agency. It is worth emphasizing this uniqueness is not just based on its mandate, but on the fact that the U.S. and Foreign Commercial Service is an integrated network consisting of both domestic and overseas offices.

In addition, we have developed, primarily through our domestic district offices, an extensive network of affiliated multiplier organizations. These relationships exist not only because of our need to effectively work with other parties and their information channels, but their dependency on our knowledge, contacts and global communications network.

By virtue of this integrated system, we are in a position to see the whole global picture and champion the international business interests of all firms throughout this country.

These multiplier organizations include our 51 district export councils, or DEC's, that have been referred to earlier, consisting of over 1,800 business leaders from all types of business with international expertise.

So integrated are the DEC's to our outreach function of district offices that when managing a district's operation it would be easy to take for granted their talent and leadership.

Recently in separate conversations with several DEC chairmen from across the country, I was astonished by being confronted with the strength of their commitment to district offices and the US&FCS system.

I believe their commitment is based on a perception that the U.S. and Foreign Commercial Service has generally achieved the intent of being responsive to business needs and sensitive to state and regional concerns.

With specific reference to the states, both the domestic and foreign field offices of the U.S. and Foreign Commercial Service are looked upon as critical assets in the performance of a state's more restricted trade development efforts.

Over the years a number of cooperative relationships have been developed between US&FCS and the various states. These relationships include state's assistance and recruiting for Commerce-sponsored trade shows and trade missions and the US&FCS providing logistical assistance with official state trade delegations, collecting commercial intelligence, providing export development services to firms referred by the states, providing global communication support, and working as a primary partner with the states in developing a locally-based trading infrastructure.

The dynamics of this relationship are often intense, particularly in the majority of states that have limited resources. By virtue of a state's legislative and budgetary process, most state international trade offices are subjected to tremendous shifts in funding and policy considerations.

Therefore, the presence of a US&FCS district office becomes a stabilizing factor by providing complementary services to a mutual business constituency.

Contained in my written testimony are specific examples of initiatives undertaken, involving the states and other organizations.

However, the examples cited are just that. No matter how successful a specific initiative might be, it is not necessarily translatable to the entire field. My experience as a regional managing director suggests that the developmental aspects of our business, combined with unique conditions in foreign markets, require flexible and entrepreneurial approaches.

Now I would like to comment briefly upon two programs in place to help facilitate our efforts. The first is "Export Now," the initiative of Commerce Secretary Verity, about which you have heard so much.

It has been an effective marketing tool to highlight the need to export and the services offered through the U.S. and Foreign Commercial Service. District offices work hard in bringing this marketing campaign to the attention of U.S. companies. More importantly, they are responsible for following up with interested companies.

The second program that has been discussed this afternoon is the Commercial Information Management System. CIMS is a marketing tool.—And it has the potential of being a state-of-the-art global information management system designed to create export information packages customized for a company's special needs.

Highly-specific market research, trade contact lists, sales leads, situation and competitive assessment reports and the like. I think we are poised for greater success leading into the 21st century with this multi-million dollar investment in CIMS.

District offices play a critical role in the equation, of collecting, analyzing, and distributing information necessary for its successful implementation.

Other Federal agencies have important roles to play in trade facilitation and export development. And we work with them regularly. By coordinating our efforts with them, we seek to maximize results and hold down costs of delivery.

One example is the Small Business Administration. Substantial cooperation exists with them on purely trade promotion activities. However, when it comes to offering substantive programs and services, SBA refers previously unidentified qualified companies to the district offices.

In closing, the U.S. and Foreign Commercial Service network is in a unique position to see the whole global picture, and provide focus to an otherwise fragmented system of export development.

District offices contribute a wealth of domestic resources to this network, and have the primary relationship to our constituency, your constituency, the business community.

To improve our country's export development efforts we must protect the integrity of this network and find creative ways to sustain important marketing initiatives over the long term.

I do appreciate the opportunity to present this testimony today and welcome your questions and comments. Thank you.

[The statement and questions and answers follow:]

STATEMENT OF DONALD R. LOSO, REGIONAL MANAGING DIRECTOR, REGIONAL OFFICE,
FOREIGN COMMERCIAL SERVICE, INTERNATIONAL TRADE ADMINISTRATION, DEPARTMENT OF COMMERCE

Mr. Chairman and members of the committee: I am pleased to have this opportunity to discuss the trade facilitation activities of the U.S. & Foreign Commercial Service of the International Trade Administration/U.S. Department of Commerce, and specifically, how our field operations relate to those of individual states. US&FCS district offices across this country blend a strong belief in entrepreneurial initiatives with sound public management principles in order to improve the ability of U.S. business to compete in international markets.

Prior to 1979, the export development efforts of the U.S. government were characterized as uncoordinated, unresponsive and not directed with specific targets or objectives in mind. In response to these circumstances, Congress created the U.S. & Foreign Commercial Service (US&FCS) with the intent of producing an integrated export development system which would be responsive to the needs of the U.S. business community and sensitive to the unique considerations of states and regions of this country. Given our resource constraints, I believe we have succeeded admirably in meeting the congressional intent for the US&FCS. We can, however, do a better job in targeting our international marketing efforts on both an industry and country basis.

Like a successful international business, successful export development requires a well defined understanding of the obstacles and the opportunities, a comprehensive strategic plan, a communications network that captures a broad range of information and transmits it in a timely manner, and an historical understanding of the people with whom you do business. These requirements are interactive.

The US&FCS is the only U.S. government agency with an integrated network consisting of both domestic and overseas offices which are mandated to facilitate exports of goods and services produced by U.S. businesses. We are strategically positioned worldwide to accomplish this mandate. US&FCS has 1,200 employees in 127 commercial offices in 66 countries and 48 district offices and 19 branch offices in the United States.

In addition, we have developed, primarily through the district offices, an extensive network of affiliated "multiplier" organizations. By virtue of this integrated system, we are in a unique position to see the whole picture and champion the international business interests of all firms throughout this country.

Perhaps one of the most important affiliated organizations of the US&FCS system are the District Export Councils (DECs). DECs consist of business leaders appointed by the Secretary of Commerce to serve at a state or local level in an advisory capacity on international trade issues. The 51 DECs are comprised of 1,800 business leaders from all types of businesses with international expertise. So integrated are DECs to our outreach function that when managing a district's operations it is easy to take for granted the talent and community leadership DECs provide. Recently, in separate conversations with several DEC chairmen from across the country, I was astonished by being confronted with the strength of the DECs commitment to the district offices and the US&FCS system. Their commitment is based on a perception that US&FCS has generally achieved the intent of being responsive to business needs and has been a good partner in developing additional organizations to support international trade.

US&FCS, primarily through the district offices, has extensive relationships with state trade offices, industry associations and other organizations such as banks, law firms, freight forwarders, colleges and universities, etc. These relationships exist not only because of our need to effectively work with other parties and their information channels but their dependency on our knowledge, contacts and global communications network.

With specific reference to the states, both the domestic and foreign field offices of US&FCS are looked upon as critical assets in the performance of that state's more restricted trade development efforts. The foreign commercial service often arranges schedules on behalf of official state delegations and serves as in-country specialists

for the purpose of collecting commercial intelligence. The domestic offices often serve as the provider of export development services to firms identified by the states, we provide global communications support to the states and work as the primary partner with the states in developing a locally based "trading infrastructure." This interaction with the state is often coordinated, but still separate and distinct from the more expanded export development activities carried out on behalf of a district office's business constituency.

The dynamics of this relationship is often intense, particularly in the majority of the states that have very limited resources. The district offices and our extended network often become the key players in developing a conducive attitude among state policy makers on behalf of export development activities conducted by the states. States are generally competitive with each other, particularly in the area of attracting foreign investment. In some instances, district offices become the forces of regional cooperation between states. In most instances the district offices pick up on trade opportunities for U.S. suppliers to make certain a response is given, regardless of state origin.

By virtue of a State's legislative and budgetary process, most State international trade offices are subject to tremendous shifts in funding and policy perspective. The presence of the US&FCS district office becomes a stabilizing factor by providing complimentary services to a mutual business constituency.

District offices have initiated innovative projects involving the States and other organizations. These initiatives are typically oriented toward maximizing specific export development efforts in the most cost effective manner. For your information, let me cite three examples.

First, is the location of State employed trade specialists in the district offices of St. Louis and Kansas City, Missouri. US&FCS, through the St. Louis district office, contacted the State and offered to serve as a host for a more aggressive State outreach program to include trade show recruitment, identification of potential new-to-export companies and coordination of State sponsored trade missions. This effort allows the State to be truly integrated into the US&FCS system, and for the US&FCS to be sensitive and responsive to the State's needs. This manner of operation permits both State and Federal resources to be more accessible, to be used more efficiently and to benefit by improved communications.

Second, is the regional trade mission to Turkey, Egypt and Saudi Arabia with twenty-five participating firms from the States of Missouri, Iowa, Kansas, Nebraska and North and South Dakota. This agri-business trade mission will introduce qualified U.S. suppliers to qualified foreign buyers of pre-designated products. The probability of success for these firms is high. It is an effort initiated by the Des Moines district office and the district export councils of the participating States with tangible support from local offices of the SBA, respective State organizations and, of course, the respective FCS offices.

Third, is the recent formation of the Rocky Mountain World Trade Center in Denver, Colorado. Our Denver district office took the initiative in association with the governor of Colorado, the Greater Denver Chamber of Commerce, the Academic Community and other organizations to establish a physical focal point for programs and services to support the international business interests of the Rocky Mountain region. This public-private initiative is truly oriented towards long-term trade development with the broad international needs of businesses in mind and in an attempt to attract a heavier concentration of foreign buyers into the inland areas of the U.S. US&FCS, through our Denver district office, will be at the core of the center's operation as a result of our programs and our global communications network.

These examples are just that. No matter how successful a specific initiative might be, it isn't necessarily translatable to the entire field. My experience as a regional managing director suggests that the developmental aspects of our business, combined with unique conditions in foreign markets, require systematic and entrepreneurial approaches.

Two tools which have recently been put in place to help facilitate our efforts are "Export Now" and the commercial information management system (CIMS). "Export Now" is the initiative of Commerce Secretary Verity, about which you have heard so much. It has been an effective marketing tool to highlight the need to export and the services offered through the US&FCS. The role of the district offices in bringing this marketing campaign to the attention of U.S. companies has been critical. More importantly, the district offices are responsible for responding to the corporate interest in export assistance generated by the marketing campaign. It would be a shame to diminish the district offices on the heels of such a successful marketing campaign.

The second tool is CIMS. CIMS is a marketing tool and a state-of-the-art global information management system designed to allow US&FCS employees to create export information packages customized for a company's special needs—highly specific market research, trade contact lists, sales leads, situation and competitive assessment reports, and the like. With the multi-million dollar investment in CIMS, US&FCS and the American business community are poised for greater success leading into the 21st century. Diminishing the district offices will jeopardize a critical factor in the equation of collecting, analyzing and distributing information necessary for successful international business.

The US&FCS is the lead Federal agency for trade facilitation and export development. Other agencies, such as the Exim Bank and the Small Business Administration (SBA), have important roles to play, and we work with them regularly. By coordinating our efforts with them we seek to maximize results and hold down the costs of delivery.

In the field, the fact of the matter is that SBA and the district offices work closely together. But what is the nature of this relationship? Substantial cooperation exists on purely trade promotion activities. SBA and district offices co-sponsor seminars, workshops and, in a few cases, publish joint newsletters. When it comes to offering substantive programs and services, SBA refers previously unidentified, qualified companies to the district offices. For companies that need basic business development assistance unrelated to international activities district offices then refer them to the SBA. The same holds true for firms that might qualify for SBA's export finance program. Local SBA offices are usually limited in their knowledge of international markets and ability to provide direct assistance to companies with exporting needs by virtue of not having the needed expertise and an overseas communications network.

In closing, the US&FCS network is in a unique position to see the whole global picture and provide focus to an otherwise fragmented system of export development. The district offices contribute a wealth of domestic resources to this network and have the primary relationship to our constituency—your constituency—the business community. To improve our country's export development efforts we must protect the integrity of this network and find creative ways to sustain important marketing initiatives over the long term.

I appreciate having the opportunity to talk with you today, and welcome your questions and comments.—September 20, 1988.

QUESTIONS OF SENATOR ROCKEFELLER AND THE ANSWERS THERETO

Question 1. You have been with the Department of Commerce for 16 years—a period in which the international trade picture has changed dramatically. Do you believe the US&FCS has kept pace with those changes?

Response. Sixteen years ago when I joined the Department of Commerce, District Offices were involved with a variety of initiatives, many with a strong domestic focus. District Offices then served as government printing office bookstore outlets, District Offices maintained an extensive census reference library, we served as the focal point for patent and trademark information, and responded to a large volume of inquiries unrelated to international trade. During this 16 year period, the U.S. trade position changed from a surplus to a deficit.

With the formation of the U.S. and Foreign Commercial Service in 1980 the focus of the domestic field service was narrowed to concentrate principally upon the expansion of exports from the business community served by the district offices. Trade promotion and trade facilitation programs were developed appropriate to the needs of the business community which facilitated their entry and/or expansion of export trade. It is my view the US&FCS has kept pace with the changes in the international trade picture and has been responsive to the business community's needs.

Question 2. As you may know, the House Subcommittee on International Operations recently concluded a study on the US&FCS. In researching for the study, the staff visited many offices including your St. Louis office. One of their findings was that "... it is difficult to keep entry level professionals motivated and interested in maintaining a long-term career in the US&FCS because of low salary levels and lack of clear career path." Does your experience bear that out? What can the Department do to alleviate these problems?

Response. My experience as a District Director and more recently as a Regional Managing Director, suggests that a number of career paths are available to those who join and seek advancement opportunities within the Department. District Director positions, Regional Managing Director positions, and professional staff posi-

tions, are typically filled with career employees. Opportunities exist for professional growth in a wide range of positions within ITA, ranging from trade policy to computer applications. Maintaining and expanding the opportunities for rotational assignments in the foreign commercial service for domestic trade specialists and the reciprocal for foreign service commercial officers to fill rotational assignments in domestic district offices provide valuable experience, permitting those who seek rotational assignments a breath of experience which would otherwise be limited. We must be certain to provide appropriate training, career development counseling, and mobility of assignments to assure retention of professional persons beginning their careers with the department.

Question 3. How does the St. Louis District Office coordinate with Missouri state offices?

Response. The St. Louis District Office has developed very positive working relationships with the State of Missouri which have extended over a significant period of time. We have jointly recruited for U.S. Trade Shows and Trade Missions, we have promoted a State Export Finance program utilizing the FCIA umbrella policy, we have conducted joint meetings with the state to encourage the formation of a shared Foreign Sales Corporation which could benefit small and medium sized exporters in Missouri. Another dimension of our efforts to coordinate with Missouri State offices has resulted in the placement of a state employed trade specialist in the St. Louis and the Kansas City district offices. This initiative provides for the state of be truly integrated into the US&FCS system and for our district office personnel to be sensitive and responsive to the state's needs. This joint initiative permits both state and federal resources to be more accessible to the business community and for all to benefit from the improved communication resulting from this form of co-location.

Question 4. Does your office initiate contacts in the business community or do you wait for companies to come to you?

Response. The St. Louis District Office does initiate contacts in the business community as evidenced by the 299 reported out-of-office counseling sessions conducted with business firms located within the territory served by the St. Louis District Office. Additionally, 859 counseling sessions were conducted (in-office) having been arranged by trade specialists so as to more efficiently provide resources including computer generated data. These statistics do not include telephone response to routine inquiries for trade statistics, Schedule B numbers, and other trade related information provided by the professional and para-professional staff. The individual counseling sessions, coupled with other district office initiatives including conferences and seminars we have conducted, have resulted in nine new-to-export business firms making their first sale in international markets and 55 new-to-market firms expanding their international sales with new market entries during fiscal year 1988.

Question 5. Is your office fully equipped with CIMS? What are the pros and cons of the system?

Response. The St. Louis District Office, which also serves as a Regional Office, is equipped with a WANG VS System and three WANG Personal Computers. We are directly linked to the Washington computer network which facilitates access to CIMS data. Additionally, the vast majority of the St. Louis District Office client information is contained in our local data base. I have indicated in my testimony, once fully operational, CIMS represents a marketing tool which will allow our trade specialists to create exporting information packages customized for a company's special needs. The domestic district offices represent the delivery network of CIMS data to assist firms in their quest for international business. Two important factors will be essential for complete and successful implementation of CIMS. The first being sufficient funding to provide the market research necessary to meet the needs and expectations of the business community. The second critical factor will be the adequate staffing of the district offices so as to assure CIMS information is analyzed and delivered in a timely, coherent and appropriate manner. We must also be sensitive in the promotion of CIMS to the business community with respect to creating expectations which can not be met and with respect to a reasonable timetable for complete implementation.

Question 6. Through these oversight hearings, I am looking for a way to evaluate the services provided by US&FCS. How do you measure success in your office? How can Congress know that US&FCS resources are being used wisely?

Response. Late in the summer each year, each district office constructs a document identified as the Annual Work Plan. The Plan is the district office collective response to the organizational MBO of increasing the number of small and medium sized companies engaged in export trade. The Plan discloses the district office's contribution to the organizational objective and states the methods of its implementa-

tion. The Plan includes a strategic planning analysis which consists of an analytical base to which country market and/or industry sector export trade opportunities can be related to local industry, an outline of projected program activities and trade promotion events to encourage and to stimulate industry related response to selected trade opportunities, and an analysis of resource requirements. In addition, the document includes a Plan for District Export Council activities and a Federal/State Cooperative Plan. Also provided is a forecast of measurable activities for the district office. Individual Work Plans are developed which, in the aggregate, support the district office forecasted performance. Each District Office submits monthly reports identifying progress toward the attainment of forecasted goals, including documentation supporting assistance to firms achieving new-to-export and new-to-market penetrations. Oversight is provided by the Regional Managing Directors and headquarters management. We believe this approach appropriately measures a district offices contribution to the exporting community.

Over the past 16 years, I have observed the US&FCS has been subjected to numerous studies, examinations, inspections, and reviews. The most recent being an audit conducted by the Inspector General on the activities of the domestic district offices and their delivery of services. On each occasion when a report, study, review, or audit has been conducted, the conclusions are consistently favorable regarding the value of services rendered to the business community by the domestic field organization. In addition to feedback from the business community, these reports should provide assurance to Congress that the US&FACS domestic resources are being used wisely.

Senator ROCKEFELLER. Thank you very much. Ms. McEntee, you pointed out that the district offices are the critical link between foreign service-generated information and the companies who will hopefully export.

Are the district offices doing a good job of communicating that information? Are they pro-active, reactive? What?

Ms. McENTEE. They are doing as good a job as they can within the current context of information available. The CIMS system is really the critical delivery mechanism.

I have taken a look at what is on CIMS now, primarily what used to be called the foreign traders index, and the marketing information that is collected by the foreign posts as well as marketing research that is contracted out in foreign countries.

Senator ROCKEFELLER. Is that useful to you in California? And is it competitive with the information that you yourself generate?

Ms. McENTEE. It is useful to our companies. We do not generate that kind of information ourselves. We have designed our programs to provide other services.

Our programs are primarily trade show programs on the export development side, and we have targeted the key markets and key industries that California can compete in. On the export finance side, we have a very successful loan guaranty program. So we do not look to provide that marketing information.

Senator ROCKEFELLER. But if you were looking toward an emerging or a previously unknown potentially interesting export opportunity overseas, you would not hesitate to use the Department of Commerce data and information?

Ms. McENTEE. Yes, that is correct.

Senator ROCKEFELLER. So, as far as I have indicated that you are a year or a year and a half behind, you are not prepared to agree with that or that, in fact, it makes that much difference if it is?

Ms. McENTEE. I have seen the list of—they call them articles, the list of marketing research reports that is available on CIMS, and some of the dates are 1985 and 1986. There is still some value

to those basic reports, say, the competitive analysis of the semiconductor market in Germany, something like that.

But, again, if the CIMS program could be more interactive and communicate on a real-time basis between companies here and the foreign posts, that would also be useful. They are developing that system in addition to the limited electronic mail ability on there now. We would foresee an expanded ability.

Senator ROCKEFELLER. Your thrust basically is let us not tinker what we have or try to make it better?

Ms. McENTEE. Correct.

Senator ROCKEFELLER. And that applies clearly to CIMS that you have the feeling that if there is enough budget and enough time to put into that, it is going to be a very useful tool?

Ms. McENTEE. I think the concept is good. I have heard quite a few concerns expressed about both the hardware and the software, and I am not in a position to say whether it actually has been well designed. But the concept of automating market intelligence and making it available on a real-time and a cost-effective basis is certainly long overdue. I fully endorse that.

Senator ROCKEFELLER. Mr. Loso, does your office work directly with the Missouri state office and its export and import opportunities? By that I mean not only, let's say, in West Virginia we have something called the Governor's Office of Economic and Community Development. I do not know what it would be called in Missouri, and we do not have an office overseas anywhere which I am distressed about. Presumably you do. Do you work with both of those entities in Missouri and if you do, how does it go?

Mr. Loso. As you may know, in Missouri, the center of the state is the state government in Jefferson City. The population is concentrated in Kansas City and St. Louis.

We approached the state about two years ago and asked them if they wanted to join us in our offices in Kansas City and St. Louis and place one of their resource persons with us in those two locations, which they have done.

They also have offices in Dusseldorf, Seoul, Korea, and Japan. They maintain a small international staff in Jefferson City, the state capital.

Senator ROCKEFELLER. I didn't hear your last sentence. They maintain a small international staff where?

Mr. Loso. In Jefferson City, the state capital. We found that to be a very useful arrangement where we were able to maintain close contact with the state, avoid duplication of trade promotion efforts with their presence with us and harmonize our activities.

Senator ROCKEFELLER. Okay. Do you initiate contacts with business?

Mr. Loso. Indeed.

Senator ROCKEFELLER. Or do you wait for them to come to you.

Mr. Loso. We wish we could do more of that. We feel we are proactive. The first requirement, we believe, is to respond to those who contact us, determine the substance of that inquiry, but also task our trade specialists to be out and make calls on companies that we have targeted for emphasis and for likely success in export markets.

Senator ROCKEFELLER. Do you agree with the heretofore mentioned lead-in-the-pants syndrome?

Mr. Loso. Well, partially. We joke about that, that we "drag them kicking and screaming" into exporting. It is difficult for us to accept what we find on occasion when companies will tell us, yes, we have an inquiry here. It is in a foreign language. We haven't bothered to translate it. We are too busy. And yet that may well present a very substantive export opportunity.

Senator ROCKEFELLER. Can you think of an example or a couple of examples in the last year or two where you had an industry in St. Louis, Kansas City, Jefferson City, wherever which you felt would have export opportunity or there was at least an export market out there for them? They may not have understood it at the time, but they came to understand that one way or another?

Mr. Loso. Indeed. There are at least 18 examples of that that we can cite over this past year new to export companies.

Senator ROCKEFELLER. New to export. And in each case you were in some way involved?

Mr. Loso. Indeed.

Senator ROCKEFELLER. Usually in what manner?

Mr. Loso. Well, we think the most valuable service we offer is one-on-one counseling where a trade specialist can sit down and discuss with that company their marketing objectives, determine what is the appropriate delivery of resources from the U.S. and foreign commercial service to that initiative. We believe that that is unique with each company, and that it ought to be applied in a diagnostic way.

Senator ROCKEFELLER. It is a tough question for you here and the organization is subject to organizational dynamics and that has to do with several things one of which is money, salaries, and another of which would be do we seem to be on the front burner, et cetera. Are we getting attention from "Mother Federal Government" which is sufficient enough.

Now, one cannot look at the last four or five years with that understanding that trade has moved to the center of the world stage. It has receded interestingly enough in these political months of the summer. You know, sometimes it is hot, sometimes it is cold, but underlying matters, it is always a fundamental subject for us. I would think that would make working in the U.S. and foreign commercial service truly stimulating, a real sense of service to the nation.

On the other hand, we are also hearing that businesses do not necessarily come running to you. States such as California, which have awesome capacities for their own, and Governor Baliles earlier noted the superb overseas statistical base and good thinking, good planning, et cetera.

What is the state of morale in the foreign commercial service, the U.S. and Foreign Commercial Service, as you see it? It is a fairly tough question, but it is not an unfair one for a senator to ask.

Mr. Loso. Not at all. I have seen it better. I think the concern is that we are not able to fulfill all of the opportunities that are present, and that simply is translated into resources. If we had the opportunity to make more of these pro-active visits that I men-

tioned a moment ago, that has a way of improving morale because we see and have the opportunity to observe firsthand a role for the federal government in that company's export success and that contributes to our "psychic income."

It is difficult to not be able to fully respond to all of the inquiries and the opportunities that present themselves, and I suspect that if budget levels were higher, the morale would improve proportionately.

Senator ROCKEFELLER. That would help a lot, would it not?

Mr. LOSO. Yes.

Senator ROCKEFELLER. It is interesting. It really does come to that, does it not? It is tough to know what you do. You have been there for what, now, 16 years?

Mr. LOSO. Yes.

Senator ROCKEFELLER. To do what you do, to put up with the paperwork that you have to, to know that your effort is where the world or where the country ought to be going, where business ought to be going, that we have that capacity, and now along comes this enormous trade deficit which will underline everything you are doing, but does not always do that. I would hope that one way or another morale would stay high, but I do think that the work that you do is incredibly important.

It was interesting. It took me a long time in West Virginia. I went there 24 years ago as a social worker with no intention of either staying or getting into politics. But things changed as they did in the early sixties, and I was very happy to stay.

But it was a long time before I discovered Roger Fortner, you know, your counterpart there.

Mr. LOSO. I know Roger well. I have a great admiration for him.

Senator ROCKEFELLER. Now that I do, I look upon him as something like the Redwood National Forest. He is something to be preserved and treasured. That is just a comment to you, a comment to anybody who would read this record that I would hope the morale would stay high. There would be some time in this century that we straighten out our budget difficulties and certainly you people ought to be the beneficiaries of that.

I am in a difficult position in that I also have to leave. You have both graced us with your presence.

I want to make a concluding statement if I might. I think at least from my point of view we have had a very useful session this afternoon. The issue was how to make America more competitive internationally. It always will be. And that is what you are both working on.

In looking at the U.S. and Foreign Commercial Service, we are dealing with one facet of the problem, albeit a very important one, how to help the American exporter in that huge export market outside of all borders.

I was particularly struck as I indicated to you earlier, Ms. McEntee, by your comments that we should focus on improving the current structure rather than looking at another reorganization. The U.S. and F.C.S. in part because of rapid personnel changes seems to switch directions quite frequently and that, I think, is destabilizing and discouraging for some.

I hope very much that the next administration, be it a Democratic or a Republican one, will maintain a consistency in policy and in practice. Otherwise, the ones who will suffer will be the American business community and our workers, and we cannot allow this to happen.

I would like to thank all of you for coming here today. I had hoped that the Inspector General's office in the Commerce Department would be able to justify about their recently completed report that examines the strict office structure and possible alternatives including co-location which I briefly brought up. Unfortunately the report is not yet public and, therefore, they could not very well speak in public about it. When it is formally released in a few weeks, I will add it to the record of this hearing.

Ladies and gentlemen, I thank you very much. This hearing is concluded.

[Whereupon, at 3:33 p.m., the subcommittee was adjourned.]

[The following information was subsequently received for the record:]

U.S. DEPARTMENT OF COMMERCE,
THE INSPECTOR GENERAL,
Washington, DC, October 7, 1988.

Hon. JOHN D. ROCKEFELLER IV,
Chairman, Senate Committee on Commerce, Science, and Transportation, Subcommittee on Foreign Commerce and Tourism, Washington, DC.

DEAR MR. CHAIRMAN: As requested, I am enclosing a copy of our report on the U.S. and Foreign Commercial Service District Offices for inclusion as part of the record of your September 20th oversight hearing.

Please contact me if I can be of further assistance to you on this or any other matter.

Sincerely,

FRANCIS D. DeGEORGE,
Inspector General.

Enclosure.¹

¹ The enclosure was not reproducible.